FISCAL
YEAR
2007

PERFORMANCE AND ACCOUNTABILITY REPORT

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

The FY 2007 Performance and Accountability Report for the U.S. Department of Housing and Urban Development consists of five major components:

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

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

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

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

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

Message from the Secretary

November 15, 2007

I am pleased to share with the American public our Annual Report on Performance and Accountability for Fiscal Year 2007. The report highlights HUD's contributions as the nation's chief provider of housing to those most in need, whether it be by increasing homeownership, providing support for community development, or increasing access to affordable rental housing, free from discrimination. This is our mission and this report presents our progress in meeting our strategic and annual performance goals.

Highlights of the Department's accomplishments for 2007 include:

- **Eliminated "High Risk" Designation**. For the first time since 1994, the Government Accountability Office removed HUD's single-family housing mortgage insurance and rental housing assistance programs from the list of "High Risk" federal programs in January 2007. This significant outcome resulted from HUD's multi-year effort to strengthen internal controls to reduce both the risks of FHA's housing mortgage insurance programs and the level of improper rental housing assistance payments. FHA's demonstrated ability to manage its risks and assure the financial soundness of its self-sustaining programs is a key consideration as we seek congressional approval of FHA reforms that will enable FHA to offer homebuyers lower risk and less cost alternatives to the subprime lending market. HUD's level of improper rental housing assistance payments, as a percentage of HUD's total assistance payments, was reduced from 17.1 percent to 5.5 percent since 2001. This increased the amount of HUD's annual program funding available to serve low-income families in need by $1.9 billion.

- **FHASecure**. HUD will help nearly one-quarter of a million homeowners avoid foreclosure and the loss of their homes by enhancing FHA's refinancing program. In August, 2007, HUD launched a new foreclosure avoidance initiative called FHASecure. This mortgage insurance program is geared toward borrowers who have good credit, but who have been caught up in the subprime lending wave and may not have made all of their payments on time because of resetting interest rates. For the first time, FHA is able to offer many of these homeowners an affordable option to refinance their existing mortgage so they can make their payments and keep their homes. This change, in addition to other existing FHA products, will bring the total number of families that FHA estimates it will help to avoid foreclosure next fiscal year to approximately 240,000.

- **Increased Minority Homeownership**. HUD helped increase the minority homeownership rate from 49.2 percent in 2002 to 51.0 percent in 2007. The proportional gain represents approximately 3.74 million additional minority homeowners since mid-2002. The continued progress supports the challenging 2002 Presidential goal of adding 5.5 million new minority homeowners by the end of the decade in 2010.

- **Targeted Rental Assistance**. HUD expended over $27.5 billion for rental assistance to house approximately 4.8 million families in need, 3.6 million through direct rental assistance and 1.2 million in public housing.

- **Community Development**. HUD continued to assist communities, awarding $3.7 billion in FY 2007 to state and local governments to target their own community development priorities. The Community Development Block Grant program allows the communities to prioritize and use the funds to best serve the community with oversight by HUD. With regard to CDBG-funded housing activities during FY 2007, grantees reported that more than 117,800 owner-occupied housing units and 37,000 rental units were rehabilitated with CDBG funds, while more than 6,900 households received direct homeownership assistance. With regard to job creation and retention activities, grantees reported more than 39,000 jobs were created or retained through the use of CDBG funds.

- **Response to Natural Disasters**. The Department continues to be a major participant in the federal government's response to the hurricanes of 2005 by coordinating the long-term housing solutions for Gulf Coast residents displaced by Hurricanes Katrina, Rita, and Wilma.

  - The Disaster Housing Assistance Program assists displaced families in the Gulf States, helps them to rebuild their lives, get on a path to self-sufficiency, and have the opportunity to return to their home, if they choose. HUD is assisting approximately 28,500 families referred by FEMA under this program and will take over payment to landlords as of December 1, 2007.

  - In 2007, $6.2 billion of HUD's CDBG Disaster Assistance Grant funding for the Gulf Coast States was disbursed to the five states affected by the hurricanes. The disbursed funds were primarily directed to the states of Louisiana and Mississippi for compensation payments to more than 59,000 homeowners in Louisiana and more than 15,000 in Mississippi.

  - HUD also created the nation's first National Housing Locator (NHL) system to facilitate rental housing assistance in disaster areas. The intergovernmental NHL web site was launched in January 2007 as a direct response to lessons learned from Hurricane Katrina – most notably the need for a nationwide, single point of entry, easily searchable system to identify available rental housing in times of disaster.

- **Lead Hazard Control**. The number of children under the age of 6 with elevated blood lead levels has been reduced to approximately 235,000 from a level in excess of 890,000 in the 1990 to 1994 time period. This downward trend is a result of HUD's efforts – in partnership with the Centers for Disease Control and Prevention, the Environmental Protection Agency, and other agencies – to control lead hazards in housing through grants and enforcement of HUD's lead regulations, expanded outreach on this issue, and expansion of the required public-private infrastructure to implement the program. HUD's goal is to eliminate this totally avoidable epidemic – lead poisoning caused by housing – by the end of the decade.

- **Management Excellence**. The Department was upgraded to a score of "Green" on the Improved Financial Performance initiative of the President's Management Agenda. This improvement was a result of HUD's seventh consecutive unqualified audit opinion on its annual consolidated financial statements, elimination of its remaining longstanding material weaknesses, meeting all accelerated financial reporting requirements, initiating FHA activity based costing, and development of improved financial reporting to enhance budget and program execution, with plans for continued improvement. The Department has "Green" scores on five of nine Presidential initiatives and is working to improve the scores on the initiatives not currently "Green."

By law, I am required to make certain assurances concerning the reliability and completeness of the data contained in this report. The following provides that assurance.

> The Federal Managers' Financial Integrity Act (FMFIA) requires that the Secretary report to the President and the Congress on the adequacy of management controls in safeguarding resources. Based on the year-end assurances given by principal agency officials, the Office of Inspector General's unqualified audit opinion on HUD's consolidated financial statements, and the lack of any material internal control weakness issues, I assert that HUD's internal controls and financial systems comply with Sections 2 and 4 of the FMFIA. Further discussion of my assurances and plans for further improvement of our financial management during FY 2008 can be found in the Financial Management Accountability section of this report.
>
> Additionally, the Federal Financial Management Improvement Act of 1996 requires agencies to implement and maintain financial management systems that are in substantial compliance with OMB Circular A-127 and other Financial System Integration Office requirements, federal accounting standards, and the United States Government Standard General Ledger at the transaction level. This is the third year in which the Department has reported substantial compliance with these requirements. In general, the performance and financial data in this report are complete and reliable, and any data limitations noted in Section 2, Performance Information, or Section 3, Financial Information, are not considered significant to overall information reliability and usefulness.

The Department is honored to serve as a strong advocate for increasing homeownership, particularly among minorities, creating affordable rental housing opportunities for low-income Americans, and supporting the homeless, elderly, those with disabilities, and people living with AIDS. We pledge to continue our work to serve the most vulnerable populations, fight discrimination, and revitalize America's communities.

Alphonso Jackson
Secretary

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Glossary of Acronyms

CDBG	Community Development Block Grant
CFO	Chief Financial Officer
CPD	Office of Community Planning and Development
Fannie Mae	Federal National Mortgage Association
FFMIA	Federal Financial Management Improvement Act
FHA	Federal Housing Administration
FHEO	Office of Fair Housing and Equal Opportunity
FMFIA	Federal Managers' Financial Integrity Act of 1982
Freddie Mac	Federal Home Loan Mortgage Corporation
FY	Fiscal Year
GAO	Government Accountability Office
Ginnie Mae	Government National Mortgage Association
GNMA	Government National Mortgage Association
HUD	Department of Housing and Urban Development
OIG	Office of Inspector General
OMB	Office of Management and Budget
PHA	Public Housing Agency
PIH	Office of Public and Indian Housing
PMA	President's Management Agenda

The Mission of HUD

INCREASE HOMEOWNERSHIP, SUPPORT COMMUNITY DEVELOPMENT, AND INCREASE ACCESS TO AFFORDABLE HOUSING FREE FROM DISCRIMINATION.

These words, from HUD's Strategic Plan, go back to the heart of the United States Housing Act of 1937 which declared it a national policy to "assist the several states and their political subdivisions to remedy the unsafe and unsanitary housing conditions and the acute shortage of decent, safe, and sanitary dwellings for families of lower income and … to vest in local public housing agencies the maximum amount of responsibility in the administration of their housing programs."

Subsequent legislative and political changes have broadened the scope of the nation's housing policy, and in 1965 the United States Congress established the Department of Housing and Urban Development (HUD) as an Executive, Cabinet-level agency, to:

- Foster the orderly growth and development of the nation's urban areas,
- Coordinate Federal activities affecting housing and urban development,
- Provide technical assistance and information to aid state, county, town, village, or other local governments in developing solutions to community and metropolitan development problems,
- Encourage effective regional cooperation in the planning and conduct of community and metropolitan development programs and projects,
- Encourage and develop the fullest cooperation with private enterprise in achieving the objectives of the Department, and
- Conduct continuing comprehensive studies, and make available findings, with respect to the problems of housing and urban development.

HUD's Strategic Plan and Performance Goals

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

HUD's four-tiered performance management framework to measure performance is illustrated in the following chart:

		Description
Strategic Goals		HUD has three programmatic Strategic Goals and three cross-cutting goals directed toward meeting its mission.
Strategic Objectives		Broad operational focus areas designed to achieve Strategic Goals. HUD has 16 programmatic strategic objectives and 11 cross-cutting objectives.
Performance Indicators		Specific measurable values or characteristics used to measure progress towards achievement of strategic objectives. HUD uses four different types of indicators: outcome, output, milestone and percentage (benchmark). Additionally, tracking measures are used to report valuable data where there are substantial limits on HUD's span of control.
Performance Targets		Quantifiable expressions of desired performance/success levels.

As can be seen from the above chart, performance management at HUD begins with the setting of strategic goals, which are then translated into strategic objectives, performance indicators, and performance targets.

HUD's Strategic Framework

HUD's mission statement and the six Strategic Goals shown in the following chart are integral parts of the Department's planning process reflecting and helping to ensure the continuity of HUD's policies and operations. Three of the strategic goals are programmatic goals that address the specific but separate complimentary mission goals of HUD: to promote homeownership, provide decent affordable rental housing, and strengthening of our communities. Three other Strategic Goals are cross-cutting goals that support each of the first three. A companion discussion that summarizes the means and strategies HUD uses to achieve its mission through key program and policy activities, budget resources, measurements, and results is found at the beginning of Section 2, Performance Indicators. The table on the following page provides a depiction of HUD's Strategic Goals and the objectives of each.

HUD'S STRATEGIC FRAMEWORK

Mission: **Increase homeownership, support community development, and increase access to affordable housing free from discrimination.**

Programmatic Strategic Goals

A: Increase homeownership opportunities	B: Promote decent affordable housing	C: Strengthen communities
A1: Expand national homeownership opportunities. A2: Increase minority homeownership. A3: Make the homebuying process less complicated and less expensive. A4: Reduce predatory lending through reform, education, and enforcement. A5: Help HUD-assisted renters become homeowners. A6: Keep existing homeowners from losing their homes.	B1: Expand access to and availability of decent, affordable rental housing. B2: Improve the management accountability and physical quality of public and assisted housing. B3: Improve housing opportunities for the elderly and persons with disabilities. B4: Promote housing self-sufficiency. B5: Facilitate more effective delivery of affordable housing by reforming public housing and the Housing Choice Voucher program.	C1: Assist disaster recovery in the Gulf Coast region. C2: Enhance sustainability of communities by expanding economic opportunities. C3: Foster a suitable living environment in communities by improving physical conditions and quality of life. C4: End chronic homelessness and move homeless families and individuals to permanent housing. C5: Address housing conditions that threaten health.

Cross-Cutting Strategic Goals

D: Ensure equal opportunity in housing

D1: Ensure access to a fair and effective administrative process to investigate and resolve complaints of discrimination.

D2: Improve public awareness of rights and responsibilities under fair housing laws.

D3: Improve housing accessibility for persons with disabilities.

D4: Ensure that HUD-funded entities comply with fair housing and other civil rights laws.

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

E1: Strategically manage HUD's human capital to increase employee satisfaction and improve HUD performance.

E2: Improve HUD's management and internal controls to ensure program compliance and resolve audit issues.

E3: Improve accountability, service delivery, and customer service of HUD and its partners.

E4: Capitalize on modernized technology to improve the delivery of HUD's core business functions.

F: Promote participation of faith-based and community organizations

F1: Reduce barriers to faith-based and community organizations' participation in HUD-sponsored programs.

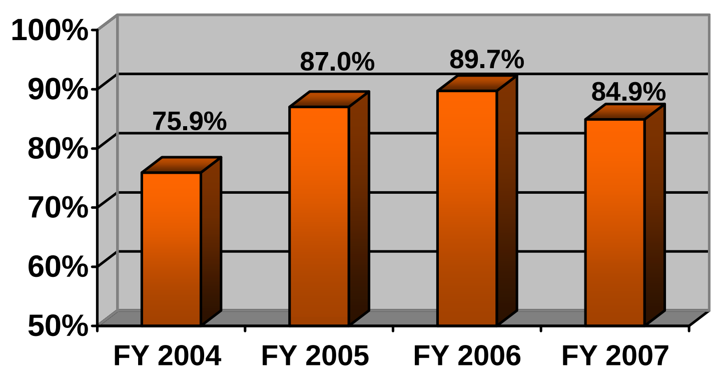
F2: Conduct outreach and provide technical assistance to strengthen the capacity of faith-based and community organizations to attract partners and secure resources.

F3: Encourage partnerships between faith-based/community organizations and HUD grantees and sub-grantees.

Performance Overview

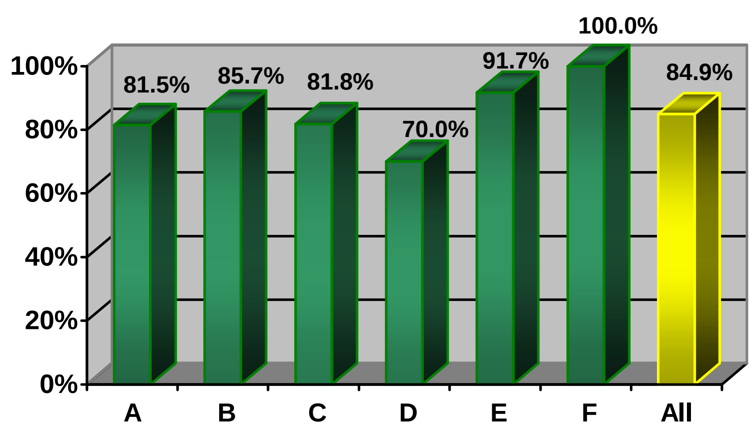
The Department is required to report on its actual performance related to the program indicators and targets published in the Departments FY 2007 Annual Performance Plan. Below is a graphical summary of our performance on all indicators over the past four years, FY 2007 indicators by Strategic Goal, and FY indicators by Program Office.

Summary of Performance Indicators Met
(by Fiscal Year)



The Department attributes the drop in the percentage of performance indicators met to the downturn in the economy as it has affected the housing industry (see the section entitled Risks, Trends, and Factors Affecting Goals contained in this section of this report) as well as from a relative reduction in funding available for HUD program monitoring, assistance, enforcement, and for needed IT systems improvement. For a broader explanation of HUD's means, strategies, and plans for accomplishing its Strategic Goals, see the introduction to Section II, the Performance Section.

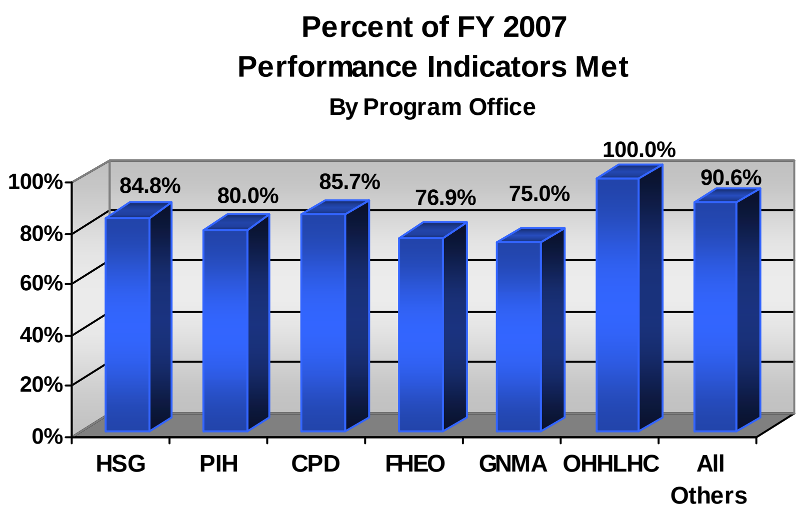
Percent of FY 2007 Performance Indicators Met
(by Strategic Goal)



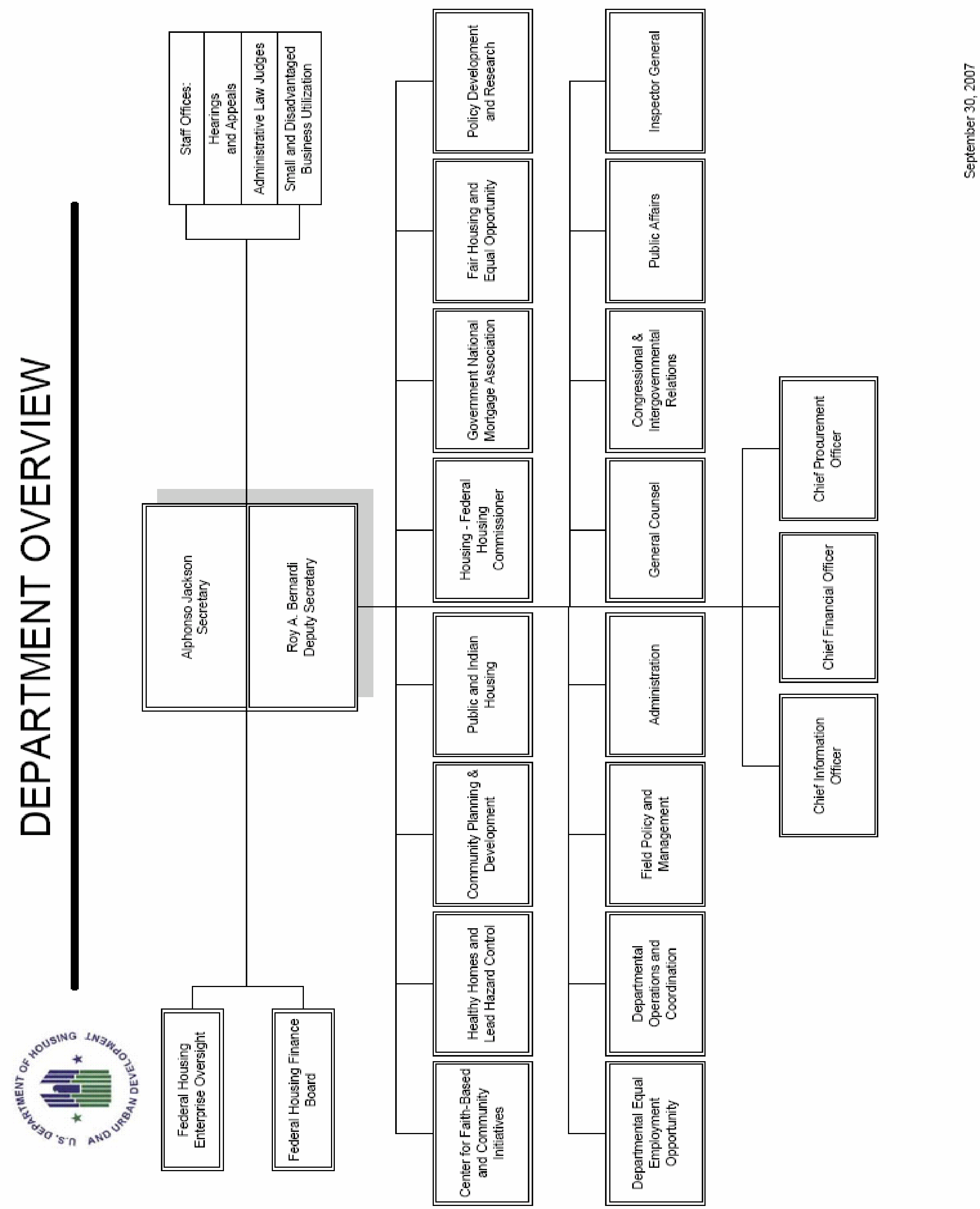
In order to most efficiently and effectively fulfill the Mission of HUD, the Department has established the following program offices:

- Office of Housing (including the Federal Housing Administration),
- Public and Indian Housing (PIH),
- Community Planning and Development (CPD),
- Office of Fair Housing and Equal Opportunity (FHEO),
- Government National Mortgage Association (GNMA), and
- Office of Healthy Homes and Lead Hazard Control (OHHLHC).

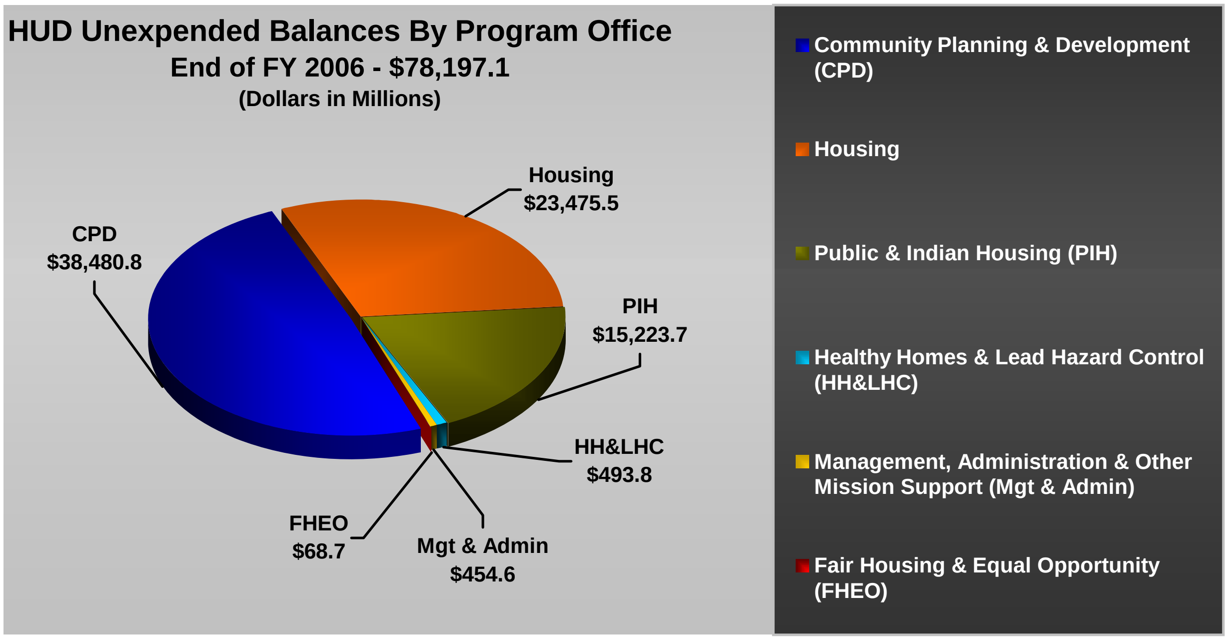
Each office has a primary focus on one or more of the Strategic Goals of HUD's Mission, and their programs are generally focused on a particular housing program delivery constituency, such as state and local governments (CPD), public housing agencies (PIH), private sector lenders and owners (Housing/FHA),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

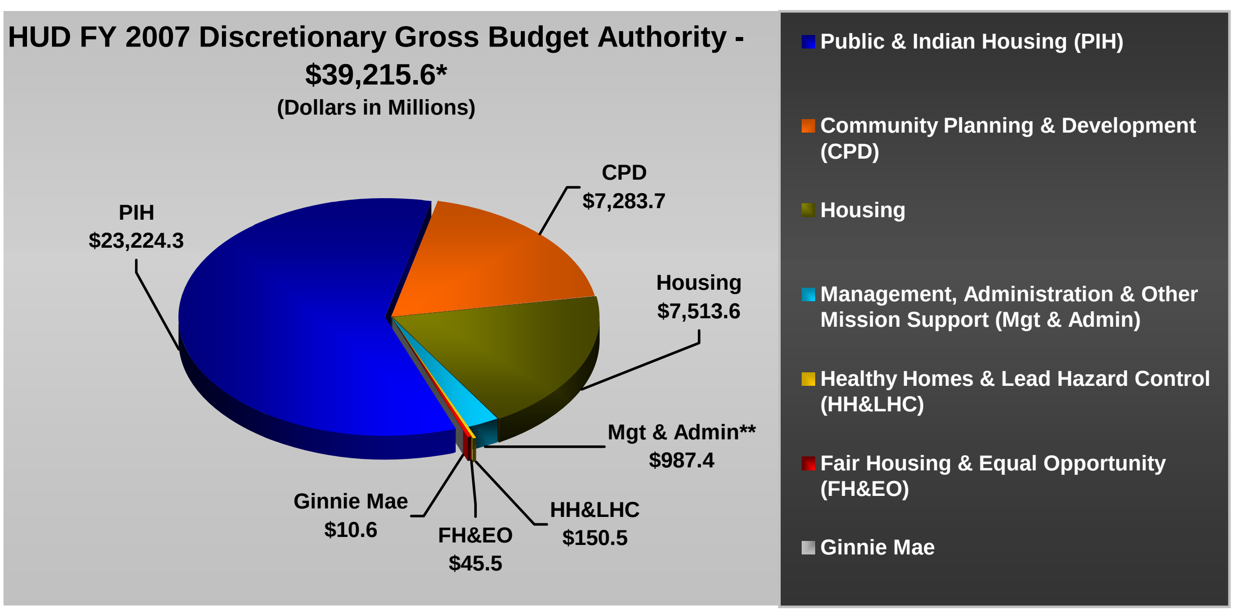


The following provides a schematic overview of the organizational components of the Department.



The following charts show budgetary resources available to HUD in FY 2007. The Unexpended Balances chart reflects prior year funds that were still available for obligation or expenditure at the beginning of the year. HUD has many long-term program obligations that are still spending-out from prior periods. This chart also reflects $16.6 billion in supplemental CDBG Disaster Recovery Grant funding for the Gulf Coast States. The second chart shows new discretionary Budget Authority provided to HUD by the Congress in FY 2007. In addition, HUD has permanent indefinite authority for some of its FHA and Ginnie Mae program activity, based on revenues generated by those self-sustaining programs over the years.





*** Amount does not include rescissions of prior year balances.**
**** Amount includes $56.1 million in Policy Development and Research Program Area Funds.**

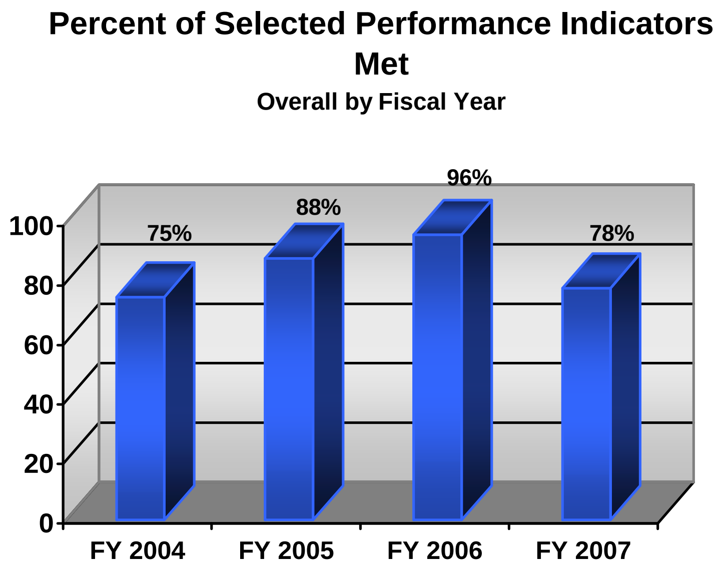
Selected Measures, Significant Achievements and Current Challenges

This section provides a description of each program, including tables reflecting selected performance measures, and historical performance trends for these measures. Those tables are not intended to be all inclusive, since a broader explanation of each indicator is included in the Performance Section of this report. The tables of selected measures are followed by discussion of significant achievements, challenges, and plans.

- **Selected Measures** are those that measure mission-critical activities. As of FY 2007, 87 percent of HUD's selected measures have been in place for at least three years. This provides the Department's leadership with the ability to track significant performance trends over time and to make strategic adjustments when necessary. It also helps HUD to maintain a focus on the use of outcome and efficiency measures to assess mission-critical performances.
- **Significant Achievements, Current Challenges, and Plans** are the Department's most important FY 2007 operational achievements related to strategic goals and key supporting strategic objectives, as well as its current challenges, and plans.

Each HUD program office has a primary focus on one of the housing program delivery constituencies – such as private sector lenders and owners, public housing agencies, state and local governments, non-profit sponsors, or the secondary mortgage market - in support of one or more specific Strategic Goal. For instance, while the primary focus of Office of Housing may be on increasing homeownership, it also administers a number of significant multifamily housing programs that support the goal of increasing affordable rental housing.

Based on the total number of reported results during a fiscal year, the following chart shows the percent of performance targets for selected measures that were achieved for programs for the current and past three years. The discussion that follows highlights programs and indicators administered by the major program offices. Expanded discussions of these results are included in Section 2 of this Report.



The following provides an overview of HUD's major program offices and their role in achieving HUD's mission to meet the full range of housing and community development needs.

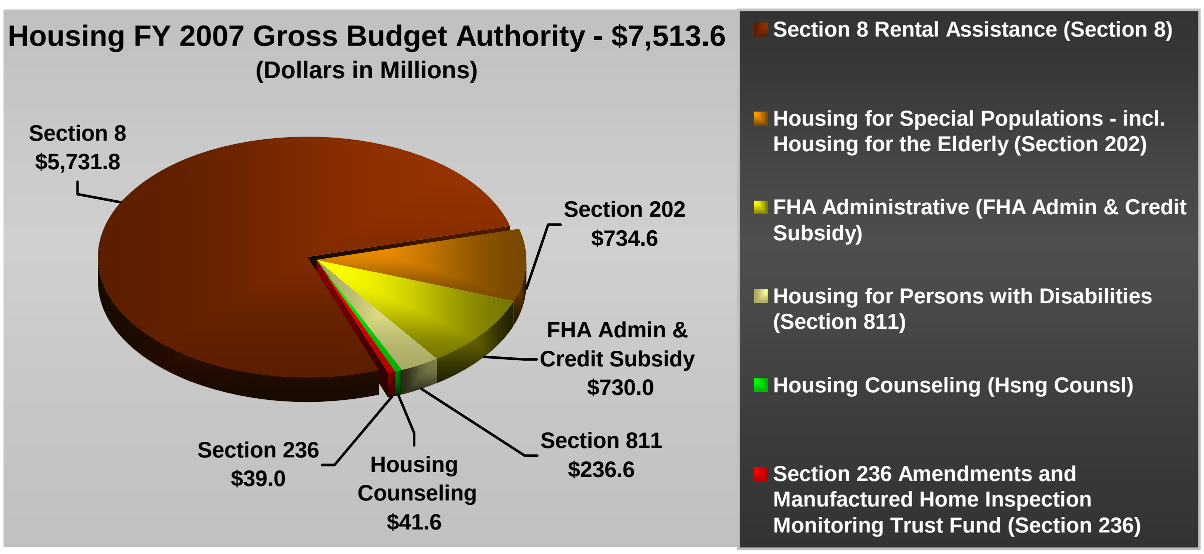
Office of Housing/Federal Housing Administration

Primary Focus: Increase Homeownership Opportunities and Affordable Rental Housing

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

FY 2007 Budget Authority
Gross Appropriated Budget Authority: $7.5 Billion
Insurance and Loan Guarantees: $400.0 Billion Insurance-In-Force
FHA Collections: $11.3 Billion
Authorized Staffing: 3,120 Full Time Equivalent

The Office of Housing/FHA provides vital public services through its nationally administered housing programs, including various mortgage insurance, homeownership subsidy, housing counseling, rental subsidy, and grant programs designed to provide housing to low- and moderate-income households. Within the Office of Housing are three business areas – Single Family Housing, Multifamily Housing, and Regulatory programs. These business areas are funded by annual appropriations from the Congress and the receipt of FHA mortgage insurance premiums and other collections.



The **OFFICE OF HOUSING'S** major appropriated programs include:

The **Section 8 Project-Based Rental Assistance Program,** which serves to maintain nearly 1.25 million units of affordable rental housing for lower income families. Under HUD's various rental housing assistance programs, assisted households typically pay 30 percent of their income for housing, with HUD funding covering the balance of the stipulated unit rent or remaining operational costs, in accordance with program regulations.

The **Section 202 and 811 Housing for the Elderly and Persons with Disabilities Programs,** which provide interest-free capital advances to finance the construction, rehabilitation, or acquisition of affordable housing with rental assistance and supportive services for the elderly (Section 202) and persons with disabilities (Section 811). There were over 135,000 housing units supported by these programs at the end of FY 2007.

Housing Counseling Program services for homebuyers and homeowners, which are provided through grant funding to approximately 1,300 HUD-approved counseling agencies across the country.

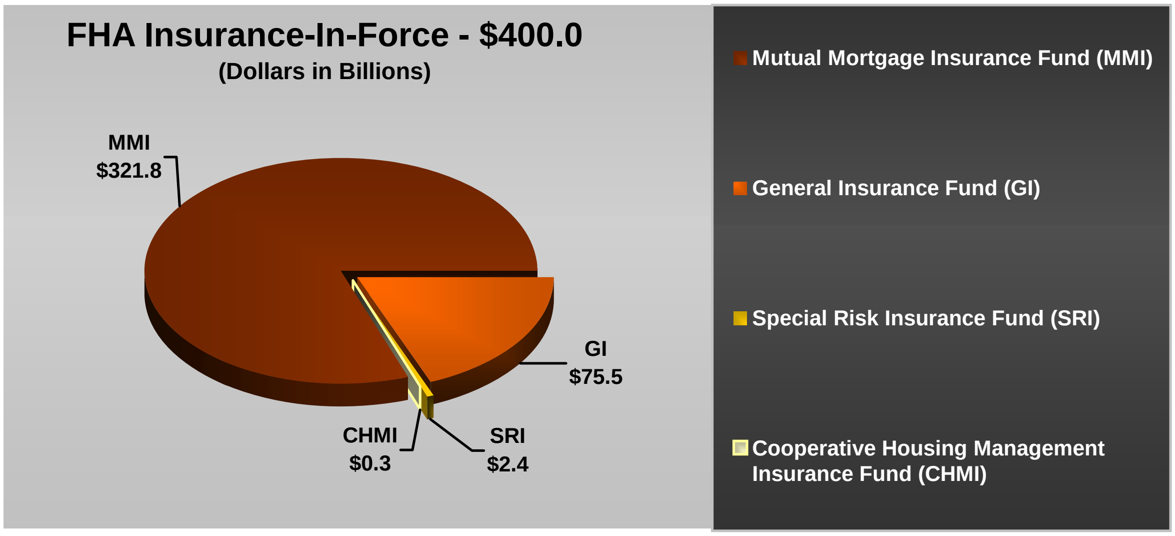
Regulatory programs, which are designed to protect homeowners, homebuyers, and to regulate real estate transactions. These programs include the issuance of manufactured housing construction and safety standards, administration of the Real Estate Settlement Procedures Act, and regulation of interstate land sales. Also, to increase the availability of mortgage credit for the very low-, low-, and moderate-income families, Housing is responsible for setting affordable-housing goals for the two primary Government Sponsored Enterprises (Freddie Mac and Fannie Mae).

More information concerning the Office of Housing is available at their website:

http://hudatwork.hud.gov/po/h/

FHA, the largest housing mortgage insurer in the world, is located within HUD's Office of Housing. FHA insures mortgages to guarantee payments, making it much easier for homeowners and landlords to borrow the funds they need from private lenders. By eliminating the risk of loss, lenders will provide market rate loans to all eligible purchasers. Since its inception 73 years ago, FHA has provided mortgage insurance to 34.6 million single-family households, and 50,150 multifamily projects containing 5.7 million units of housing. FHA currently has an insured portfolio of 3.7 million single-family mortgages and 12,156 multifamily housing projects with 1.47 million units.

FHA operates its programs through four insurance funds supported by premium and fee income, interest income, Congressional appropriations, borrowing from the U.S. Treasury, and other miscellaneous sources. By collecting mortgage insurance premiums and other fees, most FHA programs are self-sustaining and operate in a financially sound manner. The Insurance-In-Force in the four FHA funds at the end of FY 2007 was as follows:



* HECM are not included in the amount for GI Insurance-In-Force due to the unique nature of the program. As of September 30, 2007, the Insurance-In-Force was $30 billion.

- *The Mutual Mortgage Insurance (MMI) Fund*. This fund supports FHA's basic single family homeownership programs. This fund is self-sustaining.
- *The General Insurance (GI) Fund*. This fund receives direct appropriation and supports a wide variety of housing programs including rental apartments, cooperatives, condominiums, nursing homes, hospitals, property improvements, manufactured housing (Title I), home equity conversion mortgages, and disaster assistance.
- *The Special Risk Insurance (SRI) Fund*. This fund receives direct appropriation and supports higher-risk single family and multifamily insured mortgages.
- *The Cooperative Management Housing Insurance (CMHI) Fund*. This fund supports insured loans on market-rate cooperatives. Historically, this fund has been self-sustaining.

Additional information about FHA can be found in its annual report available on the web at: http://www.hud.gov/offices/hsg/fhafy07annualmanagementreport.pdf

Making Home Buying Less Complicated

The diversity of financial products and services in today's housing market give added importance to educating consumers about the homeownership process. Each year HUD conducts a number of events during *National Homeownership Month* to inform consumers about the opportunities for homeownership and the accompanying responsibilities and benefits of owning a home.

Homeownership Event sponsored by Santa Ana Field Office and Homeownership Center on June 10, 2007

Numerous events were held throughout the year to advance HUD's Homeownership objectives and ensure that the dream of homeownership is both an available and successful experience. The event above illustrates one innovative approach to providing homeownership education.

SELECTED MEASURES

In FY 2007, the Office of Housing/FHA made significant contributions to HUD's Strategic Goals for increasing homeownership opportunities and promoting decent affordable rental housing. In many respects, production activity in FHA's housing demand programs are affected by market forces beyond HUD's control. Nevertheless, HUD has plans to improve performance in areas where current goals were not met or trends are unfavorable.

INCREASE HOMEOWNERSHIP

The FHA single family housing mortgage insurance programs and housing counseling program efforts are vital tools in HUD's efforts to increase homeownership opportunities for all Americans and are particularly important in assisting first-time and minority homeowners. The following table shows FY 2007 results on five key performance indicators related to increasing homeownership and enabling homeowners experiencing financial difficulties to stay in their homes.

SELECTED MEASURES			
Performance Indicator	**Year**	**Target**	**Actual Results**
The number of FHA single family mortgage insurance endorsements nationwide. (Indicator number A1.3)	2004 2005 2006 **2007**	N/A N/A N/A **N/A**	997,000 556,000 502,000 **532,000**
The share of first time homebuyers among FHA home-purchase endorsements. (Indicator number A1.4)	2004 2005 2006 **2007**	No Goal 79.0% 71.0% **71.0%**	72.8% 79.3% 79.3% **79.5%**
The share of first time minority homebuyers among FHA first time home-purchase endorsements. (Indicator number A2.5)	2004 2005 2006 **2007**	Baseline No Goal 35.0% **35.0%**	37.2% 34.4% 31.7% **33.0%**
The percentage of clients receiving pre-purchase counseling who purchase a home or become mortgage-ready within 90 days. (Indicator number A1.8)	2004 2005 2006 **2007**	N/A 30.0% 30.0% **30.0%**	42.0% 37.1% 42.7% **53.0%**
The percentage of mortgagors seeking help with resolving or preventing mortgage delinquency that successfully avoid foreclosure. (Indicator number A6.2)	2004 2005 2006 **2007**	N/A N/A N/A **80.0%**	90.8% 96.7% 92.5% **94.7%**

While FHA's insurance endorsements dramatically dropped the past two fiscal years, they began to rise in FY 2007. The increase in FHA's market share is primarily due to the collapse of the subprime mortgage market. The subprime market consists of mortgages designed to serve people who lacked the credit history or income to qualify for a regular or "prime" mortgage. Prospective borrowers who had opted for subprime loans in recent years are now choosing the dependability and safety of FHA's traditional products.

FHA continued the favorable trend of first-time homebuyers making up a larger percentage of FHA's single family endorsements. Also significant is the share of first-time minority homebuyers among all first-time buyers. Though the goal of 35.0 percent was not met, the actual number of minority first-time homebuyers assisted by FHA in FY 2007 increased by 10.6 percent, a greater percentage increase than that of the total level of FHA single family mortgage insurance endorsements, which only increased by 6.0 percent. FHA continues to contribute to the President's aggressive 2002 national goal to increase minority homeownership by 5.5 million households by the end of the decade in 2010. As of the third quarter of 2007, there has been a net increase of 3.19 million minority homeowners, representing 58 percent of the President's goal.

HUD assists those who are preparing to purchase a home or working to be mortgage-ready. The need for pre-purchase counseling ebbs and flows with economic times, thus it may vary for reasons outside of HUD's control. In the third quarter of FY 2007, HUD substantially exceeded its goal for 30 percent of those individuals who receive pre-purchase counseling going on to purchase a home or become mortgage-ready within 90 days.

HUD also tries to assist those in danger of losing their homes due to foreclosure. FHA's use of loss mitigation tools over the past years has increased from 35,426 cases in FY 2000 to 91,051 cases in FY 2007. FHA exceeded its goal of an 80 percent success rate, with nearly a 95 percent success rate. Loss mitigation efforts in FHA's programs have enabled thousands of households to retain homes they otherwise would have lost.

While FHA continues to make homeownership possible for families and individuals who are either unserved or underserved by the conventional market, it has faced numerous challenges maintaining the competitiveness of its programs within the mortgage industry the past several years. Current statutory barriers, for example, do not allow FHA to effectively compete in today's housing market. As part the President's fiscal year 2007 budget submission, FHA submitted a modernization proposal requesting legislative flexibility to support key FHA policy objectives to:

- Increase the FHA loan limits
- Create a new risk-based insurance premium structure for FHA
- Enhance downpayment flexibility requirements
- Simplify requirements for condominium loans
- Expand use of Home Equity Conversion Mortgages ("reverse mortgages")
- Increase access to pre-purchase and post-purchase counseling for low- and moderate-income homeowners.

Passage of this legislation will reduce statutory barriers and increase FHA's flexibility to respond to changes in the marketplace. This will allow FHA to serve more prospective homebuyers by providing lower risk and lower cost alternatives to subprime loans.

HUD announced the **FHASecure Program** in FY 2007, as a temporary program that will provide refinancing opportunities to homeowners for various types of adjustable rate mortgages (ARMs). FHASecure is designed to increase liquidity in the mortgage market and help people who have good credit, but who have not made all of their payments on time because of rising mortgage payments due to ARMs that have "reset." This program and other FHA efforts will provide an estimated 240,000 homeowners, with options to help make their payments and keep their homes next year. For more information visit the FHASecure Internet web site at:
http://www.fha-refinance-program.com/FHASecure.html.

PROMOTE DECENT AFFORDABLE RENTAL HOUSING

The Office of Housing/FHA also contributed significantly to HUD's Strategic Goal of promoting decent affordable rental housing for low- and moderate-income households and other special populations in FY 2007. The FHA multifamily housing mortgage insurance program and the

Section 202 and 811 Programs contribute to increasing the supply of affordable housing each year. The Office of Multifamily Housing is also responsible for oversight of the maintenance of approximately 30,000 insured or assisted properties with over 2.6 million units of housing for low- and moderate-income households. Primary program objectives are to assure that insured and assisted multifamily housing properties: 1) meet HUD's physical condition standards to provide low-income households a decent place to live; 2) are financially sound to properly operate the property and mitigate HUD's financial risk; and 3) are properly determining tenant eligibility and rental assistance payments due from HUD. Results on five key performance indicators in FY 2007 are as follows:

SELECTED MEASURES			
Performance Indicator	**Year**	**Target**	**Actual Results**
FHA endorses multifamily project mortgages. (Indicator number B1.4)	2004 2005 2006 **2007**	1,000 1,000 1,000 **1,000**	1,497 1,017 1,016 **881**
The share of multifamily properties in underserved areas insured by FHA. (Indicator number C3.2)	2004 2005 2006 **2007**	25.0% 25.0% 25.0% **33.0%**	34.0% 43.0% 41.0% **46.0%**
Increase the availability of affordable housing for the elderly and persons with disabilities by bringing 200 projects to initial closing under Sections 202 and 811. (Indicator number B3.1)	2004 2005 2006 **2007**	250 250 250 **200**	303 303 315 **245**
The share of assisted and insured privately-owned multifamily properties that meet HUD established physical standards. (Indicator number B2.3)	2004 2005 2006 **2007**	94.7% 95.0% 95.0% **95.0%**	94.4% 96.0% 95.0% **94.0%**
The share of assisted and insured multifamily properties that meets HUD's financial management compliance is maintained at no less than 98 percent. (Indicator number B2.5)	2004 2005 2006 **2007**	95% 95% 98% **98%**	98% 98% 98% **99%**

FHA's multifamily housing mortgage insurance programs endorsed 881 mortgages totaling $4.19 billion in FY 2007, providing 90,614 housing units/beds across every state, but two. While this was short of HUD's goal of 1,000 endorsements, the downward trend over the last four years can be attributed, in part, to a weakening housing market beyond HUD's control. HUD's FY 2007 goal also anticipated a level of refinancing activity that did not materialize due to rising interest rates.

The Section 202/811 Programs exceeded their goal by 23 percent, with 245 initial project closings. This resulted in 5,590 additional Section 202 units for the elderly and 1,123 additional Section 811 units for disabled households.

The results of the most recent physical inspections conducted on the multifamily housing portfolio of 30,173 properties shows that 28,294 met or exceeded HUD's physical condition standards. This represents 94 percent of the inventory and maintains a very high standard. While this represents a slight increase of substandard properties of less than one percent, this is an aging housing stock, and the 6 percent of properties with substandard conditions are under management improvement operating plans or facing an enforcement action to bring those projects up to acceptable standards.

HUD exceeded its financial compliance goal with 99 percent of insured and assisted properties with no financial compliance deficiencies. This better assures that those properties can meet their operating needs and HUD's physical condition standards, and it reduces the risk of defaults and claims on FHA-insured mortgages.

Improper payments has been a challenge for all of HUD's Rental Housing Assistance Programs – given the size, complexity and decentralized administration of the programs – and significant progress has been made in reducing improper payments. HUD has reduced its baseline improper rental assistance payment estimates by over 55 percent since 2000. As program funding has grown, HUD has also reduced the improper payment rate from 17.1 percent of rental assistance payments in FY 2000 to 5.5 percent of payments in FY 2007. As a result of HUD's improved controls and progress on this issue, HUD's Rental Housing Assistance Programs were removed from the Government Accountability Office's "high-risk" federal programs watch list in FY 2007. Further information on the improper payment issue is provided in Section 4 of this report.

Neighborhood Network Centers do make a difference in resident's lives, like the Santa Maria Village Neighborhood Networks Learning Center located in a 200-unit complex in Austin, TX. The Neighborhood Networks program is a community based initiative whose goal is to provide a resource and computer center at each HUD property. The Center's main goal is to help residents obtain professional skills to be gainfully employed and ultimately become homeowners.

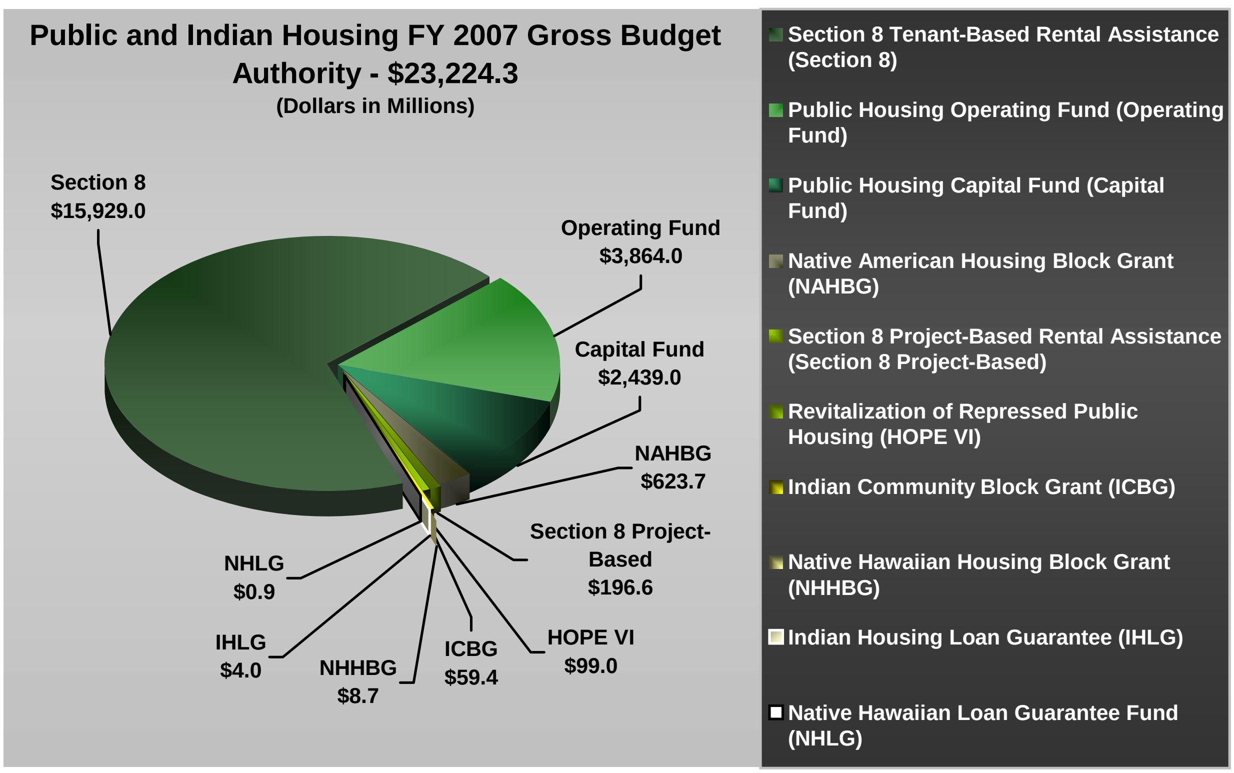
Public and Indian Housing

Primary Focus: Promote Decent Affordable Rental Housing

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

FY 2007 Budget Authority
Gross Budget Authority: $23.2 Billion
Authorized Staffing: 1,489 Full Time Equivalent

The goal of the Office of Public and Indian Housing (PIH) is to ensure safe, decent, and affordable rental housing; create opportunities for residents' housing self-sufficiency; and ensure fiscal integrity by all program administrators and participants. PIH administers over 57 percent of HUD's annual discretionary program budget authority to provide affordable rental housing to about 3.3 million low-income households nationwide.



The **Section 8 Housing Choice Voucher** program, HUD's largest funded program, serves approximately 2.1 million households through vouchers administered by over 2,400 Public Housing Agencies (PHAs) and other state and local designated entities. With these vouchers, eligible families can seek housing in the private market, and in a neighborhood of their choice.

The family generally pays 30 percent of its adjusted income toward the rent while the voucher subsidizes the remaining cost up to a PHA-determined payment standard.

Public Housing Operating Funds are provided to over 3,100 PHAs to help them meet housing project operating and management expenses. Funds can be used for operating and management costs, including administration, routine maintenance, anti-crime and anti-drug activities, resident participation in management, insurance costs, energy costs, and costs, as appropriate, related to the operation of management of mixed finance projects, among other things.

Public Housing Capital Funds are provided to over 3,100 PHAs to finance capital improvements (developing, rehabilitating, and demolishing units), replace housing, and fund management improvements. Some PHAs may not have enough funds in a single year to be able to make all of the improvements necessary to adequately maintain their public housing. As a result, PHAs may take advantage of the financing element of the Capital Fund. Under the Capital Fund Financing Program, a PHA may borrow private capital to make improvements and pledge, subject to the availability of appropriations, a portion of its future year annual Capital Funds to make debt service payments for either a bond or conventional bank loan transaction, essentially leveraging its future appropriations.

Indian Housing Block Grants and Home Loan Guarantees fund housing development in Indian areas, provide housing assistance to eligible families, and help promote homeownership for Native Americans by providing loan guarantees to private lenders to increase the availability of mortgages and other financing for housing.

The Ihanktonwan Community College, located on the Yankton Sioux Reservation in South Dakota, recently completed an 11,200 square foot Indian Education Center for Higher Learning. In 2004, Ihanktonwan Community College was awarded a $900,000 Indian Community Development Block Grant (ICDBG) to expand its facility. Using the ICDBG funds and other leveraged resources, this expansion added a science lab, library, distance learning centers, and three additional classrooms as well as several faculty offices. With this addition, the Ihanktonwan Community College can pursue its quest to become accredited as a four year institution of higher learning.

Indian Education Center for Higher Learning

SELECTED MEASURES

In FY 2007, PIH made significant contributions to HUD's strategic goals for promoting decent affordable rental housing and increasing homeownership opportunities.

Promote Decent Affordable Rental Housing

Given the significance of the resources and responsibilities entrusted to the PHAs - for the Section 8 Housing Choice Voucher and various Public Housing programs - PIH has established comprehensive remote monitoring systems to assess PHA performance and the need to target on-site monitoring, technical assistance, or other intervention actions to improve performance. The FY 2007 results on two key tracking indicators for the Section 8 Housing Choice Voucher Program were:

SELECTED MEASURES			
Performance Indicator	**Year**	**Target**	**Actual Results**
The proportion of the Housing Choice Voucher Program funding administered by troubled housing agencies. (Indicator number B2.7).	2004 2005 2006 **2007**	N/A N/A Tracking **Tracking**	N/A N/A 6.1% **4.5%**
Improve the utilization rate of Housing Choice Voucher funding to 97% by 2011. (When a new assessment system under development becomes functional, HUD will develop new performance goals. In the interim, the Department will report this measure as a tracking indicator.) (Indicator number B1.10).	2004 2005 2006 **2007**	N/A N/A N/A **N/A**	100.0% 97.0% 90.0% **93.0%**

The above first indicator tracks the portion of the Housing Choice Voucher Program funding managed by "troubled" agencies. It is an important indicator since troubled agencies do not efficiently and effectively handle the funding provided, and typically serve less recipients, have higher improper payments and/or do not assure the quality of the housing provided. Through corrective actions and technical assistance, the percentage of program funding administered by troubled agencies was reduced from 6.1 percent to 4.5 percent in FY 2007.

In FY 2005, Congress changed the basis of the Housing Choice Voucher Program funding from a "unit-based" process with program variables that affected the total annual federal funding need, to a "budget-based" process that limits the federal funding to PHAs to a fixed amount. Whereas the prior unit-based process resulted in both escalating annual federal budget needs and large balances of un-utilized funds at the end of the annual funding cycle, the budget-based process has leveled total program funding. This budget-based process is intended to provide PHAs with a steady funding stream and flexibility in the management of the program within the annually computed budget.

However, legislative change is needed to provide PHAs with the flexibility to manage their programs according to local needs and priorities. Congress did not enact HUD's proposed State and Local Housing Flexibility Act of 2005 to streamline the program and give more flexibility to

PHAs to administer the program to better address local needs within their set annual funding amount.

Under the current funding approach, a certain level of local program reserve is necessary given the many existing variable factors that affect the program funding utilization, such as market conditions, the local voucher acceptance rate, and changes in the tenant income mix being subsidized. Most Housing Choice Vouchers are currently being used to assist low-income families. However, many PHAs have an existing statutory ceiling on the number of leased voucher units they can fund, as a carry-over from the previous unit-based funding process. These ceilings or caps do not allow those PHAs to take advantage of program efficiencies they can achieve under budget-based funding. As a result, large undesignated funds balances have built up in the program since FY 2005. HUD proposes the Congress remove ceilings on voucher units and change the authorizing statutes to provide PHAs greater flexibility to use their fixed funding to meet local needs which would result in the rate of underutilized funding being further reduced, thus serving more low-income households.

In the interim, increasing PHAs' utilization of voucher funds remains a key HUD priority. The utilization rate improved from 90 percent to 93 percent in FY 2007. HUD will closely monitor underutilization of funds and will take appropriate action, including possible revisions to future funding allocations to ensure appropriated funds are being used to serve as many families as are authorized to receive vouchers under the program.

The FY 2007 results on two key performance indicators for the Public Housing Programs were:

SELECTED MEASURES			
Performance Indicator	**Year**	**Target**	**Actual Results**
The percentage reduction of public housing units under management of troubled housing agencies (Indicator B2.6). (When a new assessment system under development becomes functional, HUD will develop new performance goals. In the interim, the Department will report this measure as a tracking indicator.)	2004 2005 2006 **2007**	Tracking Tracking Tracking **Tracking**	43.5% 33.0% 31.0% **33.9%**
The share of public housing units that meet HUD established physical inspection standards (Indicator B2.2).	2004 2005 2006 **2007**	87.4% 85.0% 85.1% **85.0%**	85.0% 85.1% 85.8% **85.7%**

During FY 2007, HUD reduced the number of housing units managed by housing agencies rated as "substandard" or "troubled" by 34 percent from the previous year, returning them to at least a rating of "standard." At the beginning of FY 2006, there were 197 troubled PHAs administering 71,391 low-rent housing units. Program improvements positively affected the management and conditions at over 24,166 low-rent housing units at the 73 PHAs removed from troubled agency status in FY 2007. However, relative reductions in federal funding for the Public Housing Operating and Capital Funds are having an adverse impact on PHAs' ability to better manage and maintain the public housing stock.

The share of public housing units that meet HUD's physical condition standards has been holding relatively constant near 85 percent for the past four years. To improve the physical quality of public housing and achieve program efficiencies, PIH is implementing the recommendations of a three-year study by Harvard University on the cost of operating a well-run PHA. HUD is using a new formula to provide operating subsidies based on the profile and needs of each public housing project based on size, location, age of facilities, and its occupancy. Also in keeping with the Harvard Study and negotiated rulemaking on the Operating Fund Program, all PHAs of 250 or more units are required to convert to asset management, including project-based budgeting, accounting, and management. Under asset management, PHAs will monitor performance on a project-level versus on a PHA-wide basis. This greater focus will improve the PHAs ability to address operating issues and thus improve the effectiveness of resources which in turn improve the physical quality of the public housing stock. PHAs have until 2011 to complete the transition to asset management; however, project-based budgeting and accounting began in 2007 (for PHAs with July fiscal years). PIH exceeded its goal to have asset-based accounting implemented at 20 percent of PHAs in FY 2007, with 30 percent actually implemented.

PIH is in the process of overhauling its systems, processes, training and operations in order to ensure that PHAs comply with the conversion to asset management. Increased responsibility due to the implementation of asset management will put a strain on resources. Without adequate budgetary resources, PIH will not be able perform the following oversight functions, all of which are essential for the implementation of asset management:

- Accept project-level financial statements from PHAs
- Conduct project-level property inspections
- Conduct on-site management reviews
- Accept project-level operating subsidy submissions from PHAs
- Perform project-based performance assessments

In FY 2007, the PIH Office of Capital Improvements approved 23 proposals under the Capital Fund Financing Program involving approximately $191 million in financing through PHA leveraging of their capital funds. The financed funds were used for the modernization and development of public housing at 37 PHAs.

A continuing challenge related to all of HUD's rental housing assistance programs - including the Housing Choice Voucher and Public Housing Programs - is the issue of improper payments. The significance of this issue is evidenced in it being included in the President's Management Agenda as an initiative. HUD has done extremely well in addressing this issue, reducing its improper payment rate from 17.1 percent to 5.5 percent since 2000. Further details on HUD's performance on this issue can be found in Section 4 under Improper Payment Information Act Reporting.

Increase Homeownership Opportunities

PIH programs have also continued to serve to increase homeownership among low-income and minority households, and Native Americans, as indicated by the following key indicators for FY 2007:

SELECTED MEASURES			
Performance Indicator	**Year**	**Target**	**Actual Results**
The cumulative homeownership closings under the homeownership option of the Housing Choice Voucher/Housing Certificate Fund (Indicator Number A5.1).	2004 2005 2006 **2007**	1,674 4,000 6,000 **8,000**	2,052 5,121 7,528 **10,429**
Section 184 mortgage financing of $197.25 million is guaranteed for Native American homeowners during FY 2007. (Indicator number A2.9)	2004 2005 2006 **2007**	N/A $150.0 $120.0 **$197.25**	$62.3 $76.8 $172.2 **$233.9**

By FY 2007, 10,429 households became homeowners through the Housing Choice Voucher, Family Self-Sufficiency and Moving to Work homeownership programs, exceeding the FY 2007 cumulative goal of 8,000 closings.

The Section 184 mortgage financing program had a successful year due to a team approach used to educate tribes and individual Native Americans about the benefits of homeownership. HUD relied on a network of approved lenders to finance mortgage transactions through a public/private partnership.

Grand Ronde Tribal Housing Authority Rental Units

This housing development in Grand Ronde, Oregon included 72 rental units; 36 of the units are designated for low-income families and 36 units are market-rate rentals. The project was funded by the Confederated Tribes of Grand Ronde and HUD IHBG funds.

An additional achievement during FY 2007 that was not a performance indicator, but is notable just the same, was the creation of the **National Housing Locator.** PIH, in partnership with the Office of the Chief Information Officer, created the nation's first National Housing Locator system for rental housing assistance in disaster areas. The intergovernmental National Housing Locator web site was launched in January 2007 as a direct response to lessons learned from Hurricane Katrina, most notably the lack of a nationwide, single point of entry, easily searchable system identifying available rental housing in times of disaster.

Community Planning and Development

Primary Focus: Strengthening Communities

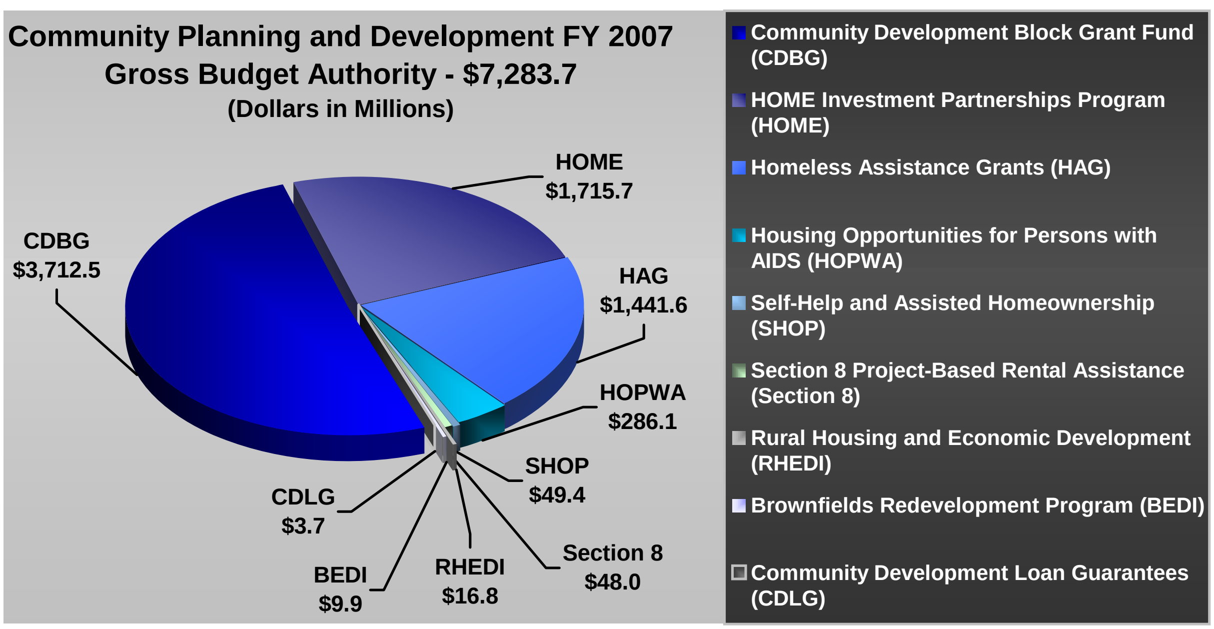
Major Programs: Community Development Block Grants, Disaster Assistance, HOME Investment Partnerships, Homeless Assistance, Housing Opportunity for Persons with AIDS

FY 2007 Budget Authority
Gross Budget Authority: $7.3 Billion
Authorized Staffing: 806 Full Time Equivalent

The Office of Community Planning and Development administers a variety of housing, community, and economic development grant programs, as well as HUD's homeless assistance programs. Together, these programs promote decent housing, a suitable living environment, and expanded economic opportunities for low- and moderate-income persons.

These goals are achieved through partnerships with and among all levels of the government and the private sector, including for-profit and non-profit organizations.

Through programs such as Community Development Block Grant (CDBG), HOME, Homeless Assistance Grants, and Housing Opportunities for Persons with AIDS, CPD seeks to encourage theempowerment of local residents by helping to give them a voice in the future of their neighborhoods, stimulate the creation of community-based organizations, and enhance the management skills of existing organizations so they can achieve greater production capacity. These groups are at the heart of a locality-based housing and community development strategy.



The CDBG program is a key program administered by CPD, with an appropriation in FY 2007 of $3.7 billion. CDBG is a formula grant program that allocates 70 percent of grant funds to units of general local governments and 30 percent to states for the funding of smaller local government that do not qualify for direct grants from HUD. The primary objective of this program is to develop viable urban and rural communities by providing decent housing, a suitable living environment, and by expanding economic opportunities. Activities undertaken with the grants must meet one of three broad national objectives:

1) benefit low- and moderate-income persons;

2) aid in the prevention or elimination of slums and blight; or

3) meet other particularly urgent community development needs.

At least 70 percent of all CDBG funds expended by a grantee must be used for activities that benefit persons of low- and moderate-income.

The city of Rogers, located in northwest Arkansas, is home to a national award winning affordable housing project with a unique, eco-friendly design. Built by Habitat for Humanity of Benton County, the project resulted from a partnership with several key entities including the City's Community Development Block Grant Program and the University of Arkansas Community Design Center and Ecological Department.

Photos above: 1) Foundation being laid for a "green" Habitat Trails subdivision in Rogers, Arkansas; 2) framing going up; and 3) outside of one of the eco-friendly homes.

Disaster Assistance. On December 30, 2005, President Bush signed an appropriation which provided $11.5 billion in CDBG disaster supplemental funding to the states of Alabama, Florida, Louisiana, Mississippi and Texas to address the affects of Hurricanes Katrina, Rita, and Wilma. In June 2006, President Bush signed into law an appropriation of an additional $5.2 billion in CDBG supplemental funds for distribution to the five states. The states have designed programs to address a number of immediate and longer term needs including: homeowner compensation programs, housing for renters, state and local infrastructure reconstruction, economic development, public services, rent support, and restoration of homeless services. During FY 2007, the states expended more than $6.2 billion of the available funds with the vast funds having been disbursed primarily for the homeowner compensation programs in Louisiana and Mississippi.

HOME Investment Partnerships Program is another key grant program administered by CPD. HOME provides funding to states and localities to create – often in partnership with local non-profit groups – affordable housing for low-income households. In FY 2007, $1.7 billion was allocated to participating jurisdictions and states to carry out a broad range of activities including home purchase or rehabilitation financing assistance, and building/rehabilitation of housing for rent or ownership, as well as tenant-based rental assistance.

In addition, the **American Dream Downpayment Initiative**, a component of the HOME program, provides assistance with downpayment and closing costs for first time homebuyers. HOME's flexibility empowers people and communities to design and implement strategies tailored to their own needs and priorities. It also strengthens partnerships among all levels of government and the private sector in the development of affordable housing. This program was funded with a $24.8 million appropriation in FY 2007.

HUD's Homeless Assistance Grants program provides Federal support to address the needs of one of the nation's most vulnerable populations. In FY 2007, an appropriation of $1.4 billion was provided to help homeless families, individuals, and chronically homeless persons to achieve housing stability, as well as an appropriate level of self-sufficiency.

The Housing Opportunities for Persons with AIDS (HOPWA) program provides funding to states and cities for assistance to low-income persons living with HIV/AIDS and their families. Rent subsidies and support in community residences enable households to reduce their risks of homelessness and improve access to healthcare and other support. The FY 2007 appropriation for HOPWA was $286.1 million.

SELECTED MEASURES

STRENGTHEN COMMUNITIES

The Community Development Block Program (CDBG) is the largest program and most flexible in CPD. By its nature as a block grant program, CDBG gives communities maximum flexibility to choose between multiple options that best meet their unique needs, making goals and performance measurements less easy to quantify.

Selected Measures

Performance Indicator	Year	Target	Results
The share of CDBG entitlement funds that benefit low- and moderate-income persons. (Indicator number C2.3)	2004 2005 2006 **2007**	92.0% 92.0% 92.0% **92.0%**	94.9% 95.3% 95.1% **94.8%**
The percentage of homeless persons in HUD transitional housing at the beginning of the year who have moved into permanent housing (Indicator number C4.3)	2004 2005 2006 **2007**	N/A NEW 61.0% **61.5%**	59.4% 60.0% 62.4% **68.9%**
Create new permanent housing beds for chronically homeless persons. (New indicator number C4.5)	2004 2005 2006 **2007**	N/A N/A N/A **4,000**	N/A N/A 4,397 **3,865**

The Community Development Block Grant Program (CDBG) provides substantial discretion for states, communities, and local governments to respond to housing and economic need, but these units of government are required to expend at least 70 percent of funds for activities that benefit low- and moderate-income persons as intended.

In FY 2007, HUD proposed that Congress consider legislation to modernize CDBG's formula for allocating funding based on need. This legislation would help ensure that resources are targeted to areas with the greatest need due to demographic change. There have not been any substantial changes to the CDBG entitlement formula since 1978, or to the State CDBG formula since its introduction in 1981.

Skirvin Hotel – present (L) and past (R).

HUD funding was critical to enabling the City of Oklahoma City to restore the historically significant Skirvin Hotel in heart of downtown Oklahoma City to full operation as a hotel. The oldest hotel in the state was opened in 1911, but had been vacant for almost two decades. The reopening of the Skirvin Hotel coincides with the 100th anniversary of Oklahoma statehood and is a centerpiece of the centennial celebration. CDBG funds were used to purchase the hotel. In addition, a Section 108 Loan, an EDI Grant, and a Brownsfield Economic Development Grant contributed to this economic revitalization project.

Ending chronic homelessness is one of the first steps toward self-sufficiency and the goal of homeownership. HUD homeless assistance programs provide transitional housing and assist persons toward achieving greater self-sufficiency. When that is not possible, HUD provides permanent housing beds for those that are not yet able to manage on their own. HUD set an ambitious goal in its first reporting year toward a goal of 20,000 new permanent housing beds in the next five years. Homeless Assistance Grants appropriation levels have increased steadily, which has contributed significantly to achieving this goal. As production increases, HUD should meet its five year goal, having already achieved 41.3 percent of this goal over the last two years.

INCREASE HOMEOWNERSHIP OPPORTUNITIES

The Office of Community Planning and Development contributes toward increasing opportunities for homeownership with down payment assistance provided through the HOME Investment Partnership Program.

Selected Measures			
Performance Indicator	**Year**	**Target**	**Results**
The number of homebuyers who have been assisted with the HOME Investment Partnerships program. (Indicator number A1.9)	2004 2005 2006 **2007**	47,190 34,806 33,501 **30,221**	30,780 32,307 55,652 **34,985**

HOME Investment Partnerships Program allows participating jurisdictions flexibility to meet their housing needs in a variety of ways, while the American Dream Downpayment Initiative component provides down payment assistance to expand homeownership. The number of homebuyers who have been assisted with the Home Investment Partnerships program exceeded its goal by 4,764 – 16 percent. Higher than usual numbers in FY 2006 represent a more complete reporting of results as part of a data improvement effort.

PROMOTE DECENT AFFORDABLE HOUSING

Selected Measures			
Performance Indicator	**Year**	**Target**	**Results**
The number of rental assisted household and rental housing units with CDBG, HOME, Housing Opportunities for Persons with AIDS, Indian Housing Block Grants, and Native Hawaiian Housing Block Grants. (Indicator number B1.3)	2004 2005 2006 **2007**	N/A 131,720 126,773 **135,929**	143,226 157,763 177,501 **141,787**

HUD employs a number of assistance programs including rehabilitation of rental housing to meet the affordable rental housing needs of various low-income and special needs populations. Yearly results through these individual programs may vary depending on available appropriations, economic conditions, and local discretion.

University of North Carolina's Architecture Department students won design contest.	Groundbreaking ceremony for Vado/Del Cerro community.	One of the families' daughters helping with the groundbreaking ceremony.

Families formerly struggled to live in substandard housing in the Colonias of Southern New Mexico at a community called Vado/Del Cerro with no running water and bathroom facilities. They now have been given the opportunity to purchase a newly-constructed energy-efficient house. Twenty-one families will occupy the housing currently being built on an 11-acre plot of land. The cost of each house will be funded and subsidized by various partners including HUD, which will reduce the total cost to the homeowner to approximately $85,000 with a $1,000 down payment. Each house will be built using green building techniques, alternative building materials, and energy and water conservation strategies.

Fair Housing and Equal Opportunity

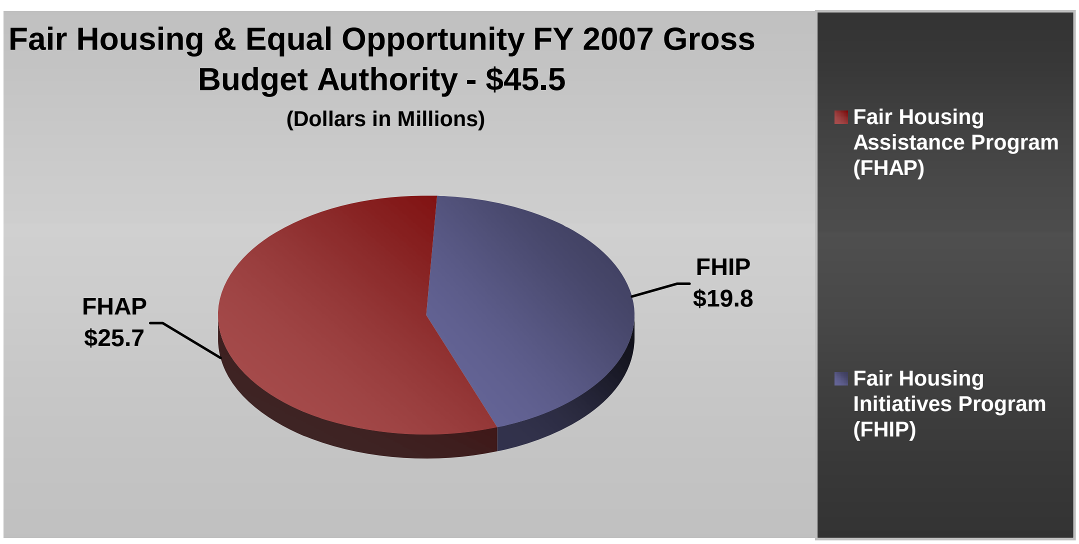
Primary Focus: Create Equal Housing Opportunities

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

FY 2007 Budget Authority
Gross Budget Authority: $45.5 Million
Authorized Staffing: 581 Full Time Equivalent

The Office of Fair Housing and Equal Opportunity (FHEO) strives to create equal housing opportunities by enforcing the Federal laws that prohibit discrimination in housing on the basis of race, color, religion, sex, national origin, disability, familial status, and age. FHEO also administers two grant programs to assist in reducing the incidence of housing discrimination: the Fair Housing Assistance Program and the Fair Housing Initiatives Program.

Periodically, HUD conducts studies to review the nature and extent of housing discrimination and public awareness of fair housing laws. These studies enable HUD's FHEO to target activities to increase awareness and reduce discrimination. Increased public awareness of fair housing laws, more often than not, reduces discriminatory actions. The last study's results, released in February 2006, found that there has been very little improvement in knowledge of the Fair Housing Act since the study conducted in 2000. The study reveals that most people do not take action when they believe they have experienced discrimination. According to the study, 80 percent of the people that believe they experienced discrimination did nothing about it. The next study is planned for 2010.



Fair Housing Assistance. The Fair Housing Assistance Program provides formula-based grants to state and local agencies that administer and enforce fair housing laws that are substantially equivalent to the Fair Housing Act.

Fair Housing Initiatives. The Fair Housing Initiatives Program provides grant funds competitively to private and public entities formulating or carrying out local, regional, and national programs that assist in eliminating discriminatory housing practices.

Enforcement. FHEO also implements and enforces the Fair Housing Act and other civil rights laws, including Title VI of the Civil Rights Act of 1964, Section 109 of the Housing and Community Development Act of 1974, Section 504 of the Rehabilitation Act of 1973, Title II of the Americans with Disabilities Act of 1990, the Age Discrimination Act of 1975, Title IX of the Education Amendments Act of 1972, and the Architectural Barriers Act of 1968.

More information about FHEO can be found at: http://www.hud.gov/offices/fheo/index.cfm.

SELECTED MEASURES

Performance Indicator	Year	Target	Results
Attendance and public events held by recipients of Fair Housing Initiatives Program education and outreach grants. (D2.1)	2004 2005 2006 **2007**	NEW 150/120,000 200/160,000 **300/180,000**	N/A 405/519,000 697/250,799 **1,486/247,201**
Increase the percentage of fair housing complaints closed in 100 days. (D1.1)	2004 2005 2006 **2007**	NEW 75.0% 60.0% **65.0%**	N/A 77.0% 73.0% **63.0%**
Percentage of Fair Housing Assistance Program complaints closed in 100 days. (D1.2)	2004 2005 2006 **2007**	NEW 45.0% 50.0% **53.0%**	N/A 48.0% 51.0% **46.0%**

The first step towards reducing discrimination and unfair practices is to increase public awareness of fair housing laws, housing discrimination, lending discrimination and predatory lending, as well as educating the public about what they can do and where to go for assistance. HUD has continued to surpass its education and awareness goals.

HUD's public education program is now showing positive results as reflected in the substantial increase in complaint filings during FY 2007. This presents a challenge to HUD in managing and closing the resulting case loads in an expeditious manner. The Department closed more cases than the previous year. However, the case closure rate fell behind due to the increased number of filings, and increased emphasis on older cases, resulting in a longer average period to close cases.

Enforcement of fair housing laws is crucial to enhancing housing opportunities for all of our citizens. The ability to provide a fair, effective, expeditious, and efficient fair housing complaint process is essential to maintain public confidence that victims of housing discrimination will receive relief from discriminatory housing practices and that violators will be disciplined. In order to ensure compliance, HUD conducts periodic reviews of Public Housing Authorities, providers of HUD-assisted housing and other recipients. Enforcement actions are taken as appropriate. HUD has consistently exceeded its goals for conducting compliance reviews.

Government National Mortgage Association

Primary Focus: Increase Homeownership Opportunities

Major Programs: Mortgage-Backed Securities Guarantees

FY 2007 Budget Authority
Gross Budget Authority: $10.6 Million for Salaries and Expenses
Mortgage-Backed Securities Income and Interest Income: $791.3 Million
GNMA Securities Outstanding: $427.6 Billion
Authorized Staffing: 65 Full Time Equivalent

The Mortgage-Backed Securities (MBS) program is administered through Ginnie Mae, a wholly-owned government corporation within HUD. Ginnie Mae provides guarantees for pools of mortgages that are issued by private mortgage institutions and insured by either of two HUD programs – FHA or the Office of Public and Indian Housing – or by the Department of Veterans Affairs' Home Loan Program for Veterans or the U.S. Department of Agriculture's Rural Development Housing and Community Facilities Programs. Since these mortgage-backed securities are backed by the full faith and credit of the United Sates government, mortgage lenders are guaranteed payment of interest and principal, even in uncertain economic times. Those lenders can obtain a better price for their mortgage loans in the secondary market, so they can use the proceeds from the resale of those loans to make new mortgage loans available.

The MBS program has been a significant contributor to the growth of the mortgage-backed securities market in the United States, as well as to the expansion of homeownership opportunities for American families, by channeling global capital into the nation's housing markets. Through its guarantees, mortgagees can provide lower interest rates for these Americans. Ginnie Mae guaranteed $85.1 billion in mortgage-backed securities in FY 2007. Cumulatively, over the past 39 years, Ginnie Mae has guaranteed the issuance of over $2.6 trillion in mortgage-backed securities.

The Targeted Lending Initiative provides incentives for lenders to increase loan volumes in traditionally underserved areas by decreasing the guaranty fee Ginnie Mae collects on its mortgage-backed securities, depending on the percentage of eligible loans within each security.

For more information concerning Ginnie Mae, go to: http://www.ginniemae.gov.

To view an online copy of Ginnie Mae's annual report to Congress, go to: http://www.ginniemae.gov/ReportToCongress

SELECTED MEASURES

The measures of Ginnie Mae's performance show increasing effectiveness in securing single family and multifamily loans. Data collection for VA loans began in FY 2007. Securitizing a high share of eligible FHA and VA loans increases the liquidity of funds in the market for mortgage credit, and the presence of government-backed securities lowers mortgage costs, creating homeownership incentives.

SELECTED MEASURES			
Performance Indicator	**Year**	**Target**	**Actual Results**
Securitize eligible single family fixed rate FHA loans. (Indicator number A1.5)	2004 2005 2006 **2007**	85.0% 85.0% 90.0% **93.0%**	87.3% 92.7% 91.4% **93.0%**
Securitize eligible single family VA loans. (new indicator number A1.6)	2004 2005 2006 **2007**	N/A N/A N/A **83.0%**	N/A N/A N/A **92.0%**
Securitize eligible FHA multifamily loans. (Indicator number B1.5)	2004 2005 2006 **2007**	80.0% 80.0% 90.0% **95.0%**	92.0% 91.1% 96.9% **98.0%**

A challenge that developed during FY 2007 was the increase of default risk, introducing uncertainty into the secondary mortgage market, along with other capital markets. This has potential both to 1) influence demand for Ginnie Mae's mortgage-backed securities, and 2) limit the availability and increase the cost of the underlying loans. To alleviate the challenge, Ginnie Mae plans to strengthen oversight and the pool verification matching process. Ginnie Mae is developing reports for the purpose of monitoring issuer compliance that will provide Senior Management with information for decision making purposes. Additionally, Ginnie Mae is creating a new security backed by FHA-insured Home Equity Conversion Mortgage (reverse mortgages) loans that will provide efficient market pricing for these loans (see additional discussion in the section on Risks, Trends, and Factors Affecting Goals).

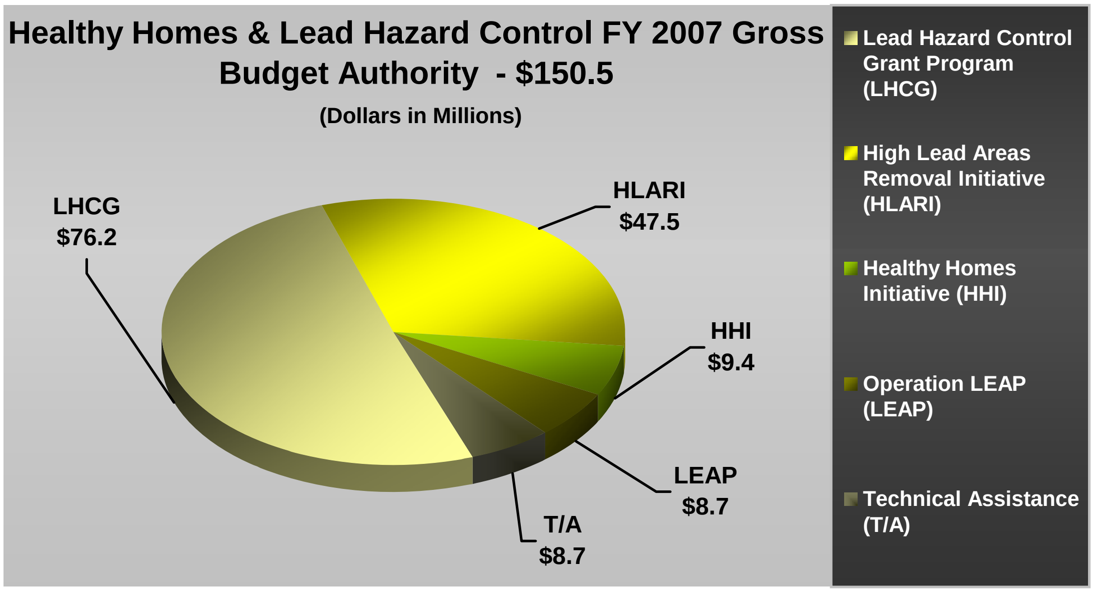
Healthy Homes and Lead Hazard Control

Primary Focus: Reduce lead-based paint hazards, promote healthier homes, enforce regulations

Major Programs: Lead Hazard Control Program, Healthy Homes Initiative

FY 2007 Budget Authority
Gross Budget Authority: $150.5 Million
Authorized Staffing: 50 Full Time Equivalent

The Office of Healthy Homes and Lead Hazard Control directs programs that address the health and safety needs of homes: the Lead Hazard Control Program, the Healthy Homes Initiative, and enforcing lead safety regulations. The Office provides funds to state and local governments, and to the private sector, to develop and implement cost-effective ways to reduce lead-based paint and other residential safety and health hazards. The Office enforces the Lead Disclosure Rule and supports enforcement by Program Offices of the Lead Safe Housing Rule.



HUD's Lead Hazard Control Program is the central element of the President's program to eradicate childhood lead-based paint poisoning. HUD provides grant funds targeted to help low-income, privately owned homes that are most likely to expose children to lead-based paint hazards. HUD awards grants in several categories, including: grants to state and local jurisdictions under the Office's largest Lead Hazard Control grant programs (for Lead-Based Paint Hazard Control grants and Lead Hazard Reduction Demonstration grants, the latter going to areas with the highest need); Operation Lead Elimination Action Program (LEAP) grants to the private sector to leverage funds for making homes lead-safe; Lead Outreach grants to promote public education and awareness of lead hazards; and Lead Technical Studies grants to support research on evaluating and controlling lead hazards more efficiently.

HUD's Healthy Homes Initiative responds to the environmental hazards in the home that harm millions of children each year. The Initiative takes a comprehensive approach by implementing grants and contracts that address housing-related hazards in a coordinated fashion, rather than addressing a single hazard at a time. One of many ways of making homes healthy is reducing the level of allergy-inducing substances (allergens) in house dust; these are associated with debris from pets, dust mites, cockroaches, and rodents. In the last two years, HUD's Healthy Homes grants have lowered the allergen levels in over 2,600 homes, and demonstrated the feasibility of doing so at low cost.

A **"Healthy Homes for Healthy Kids"** campaign was initiated by HUD in April of 2006. This three-year, 30-city outreach effort will inform parents about health and safety hazards in the home. This outreach effort includes providing information on lead paint, mold, moisture, and pests like mice and cockroaches.

Enforcement of lead-based paint regulations in pre-1978 housing being rented, or sold, or being assisted by HUD is carried out by this Office. The Office also provides public outreach and technical assistance, and conducts technical studies to help protect children and their families from health and safety hazards in the home.

SELECTED MEASURES			
Performance Indicator	**Fiscal Year**	**Target**	**Results**
Decrease the number of children under the age of 6 who have elevated blood lead levels. (C5.2)	2004 2005 2006 **2007**	N/A N/A 270,000 **240,000**	N/A N/A 270,000 **235,000**
Units will be made lead safe through Lead Hazard Control Grant programs. (C5.3)	2004 2005 2006 **2007**	8,390 9,500 9,250 **10,500**	8,811 9,500 9,638 **10,602**
As part of a 10-year effort to eradicate lead hazards, units will be made safe pursuant to enforcement of the Department's lead safety regulations.(C5.5)	2004 2005 2006 **2007**	N/A N/A N/A **8,800**	14,867 7,576 6,037 **9,696**

Lead poisoning is the number one environmental disease affecting children. These children, especially those less than three years old, are vulnerable to permanent developmental problems due to the effect of lead on the nervous system. Addressing this problem responds to the President and Secretary's priority effort to eliminate lead poisoning in children. These results are directly aligned to the accomplishments of HUD grantees under its lead grant programs and of HUD's regulatory enforcement program.

Lead hazard control grant and enforcement efforts to make low-income housing units lead-safe are essential components of eradicating lead poisoning of children as a major public health problem. This year, HUD has begun setting goals for making homes lead-safe through its enforcement actions, as it has being doing for its lead hazard control grants, as part of its 10-year effort to eradicate lead hazards in housing.

HUD's efforts, in partnership with the Centers for Disease Control and Prevention, Environmental Protection Agency, and other agencies, to control lead hazards in housing have reduced the number of children with elevated blood lead levels from 890,000 in the 1990 to 1994 time period to 235,000 children for 2007.

Contributing to this reduction, HUD's Lead Hazard Control grants made over 10,600 low-income housing units lead safe in FY 2007, and over 95,300 units since the program's inception in FY 1993; and the Department's lead regulatory enforcement program made over 9,600 units lead safe in FY 2007, and over 38,000 units since FY 2004.

Office of Federal Housing Enterprise Oversight

<u>Primary Focus</u>: Ensure the safety and soundness of the government-sponsored enterprises Fannie Mae and Freddie Mac.

<u>Major Programs</u>: Supervision of the Enterprises to ensure that they operate in a safe and sound manner, are adequately capitalized and comply with legal requirements.

<u>FY 2007 Budget Authority</u>
Gross Budget Authority: $66.2 Million
Actual Staffing: 230 Full Time Equivalent

OFHEO's primary mission is to promote housing and a strong national housing finance system by ensuring the safety and soundness of two government-sponsored enterprises (GSEs) – the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). Fannie Mae and Freddie Mac are congressionally-chartered, publicly-owned corporations whose shares are listed on the New York Stock Exchange.

Fannie Mae and Freddie Mac are the nation's largest housing finance institutions. They buy mortgages from commercial banks, thrift institutions, mortgage banks, and other primary lenders, and either hold these mortgages in their own portfolios or package them into mortgage-backed securities for resale to investors. These secondary mortgage market operations play a major role in creating a ready supply of mortgage funds for American homebuyers. Combined assets and off-balance sheet obligations of Fannie Mae and Freddie Mac were more than $4.7 trillion as of September 30, 2007, which represents 40 percent of mortgages outstanding.

OFHEO's supervision and oversight responsibilities include the following:

- Conducting broad-based and targeted examinations of Fannie Mae and Freddie Mac.
- Identifying matters requiring attention or enforcement and monitoring the progress each Enterprise makes in resolving them.
- Making quarterly findings of capital adequacy based on a minimum capital standard and a risk-based capital standard.
- Administering a risk-based capital standard, using a "stress test" that simulates interest rate and credit risk scenarios.
- Prohibiting excessive executive compensation.
- Issuing regulations concerning capital and enforcement standards.
- Taking necessary enforcement action.
- Issuing an annual Report to Congress on the financial and operational condition of the Enterprises.

OFHEO is funded through assessments on Fannie Mae and Freddie Mac. OFHEO's operations represent no direct cost to the taxpayer.

The Administration continues to support legislative reform to strengthen GSE oversight that will provide bank regulator-like powers to a new GSE regulator overseeing Fannie Mae, Freddie Mac and the Federal Home Loan Banks. The new stronger regulator would also have the mission oversight authorities now part of HUD's Office of GSE Oversight.

More information about OFHEO, including its Performance and Accountability Report for FY 2007, can be found at: http://www.ofheo.gov/

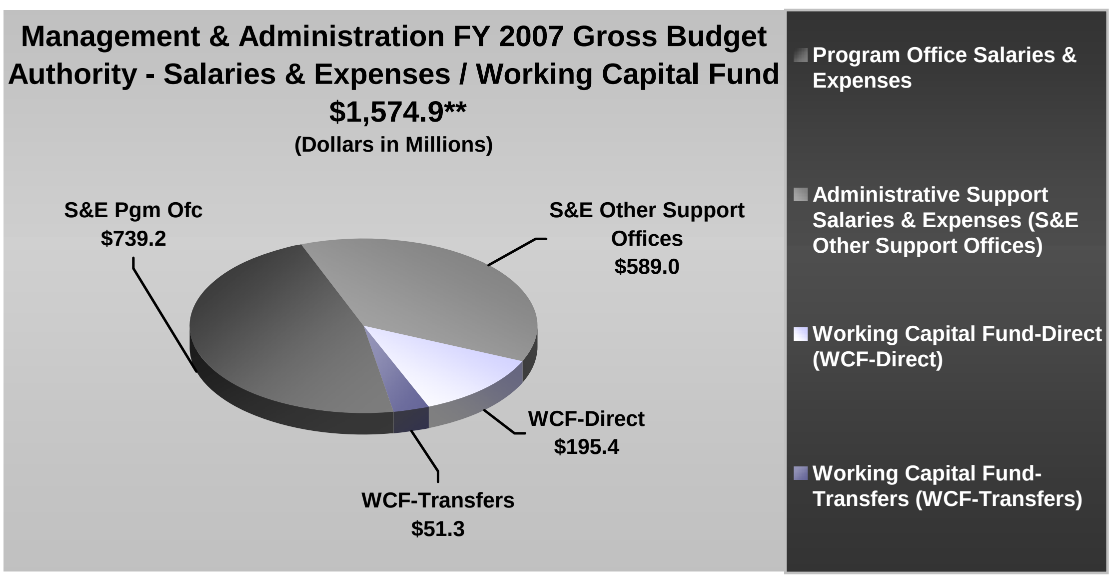
Primary Focus: Support effective implementation of the HUD Mission and Goals

Major Organizations: Administration, Chief Financial Officer, Chief Information Officer, Chief Procurement Officer, Center for Faith-Based and Community Initiatives, Field Policy Management, Congressional and Intergovernmental Relations, Office of the General Counsel,

FY 2007 Budget Authority
Gross Budget Authority: $931.3 Million*
Authorized Staffing: 3,038 Full Time Equivalent

Other Support Offices

Other Support Offices provide support to HUD's key program areas and are partially supported through direct appropriation and partially through transfers of appropriated funds. In FY 2007, Other Support Offices received $931.3 million in direct Salaries and Expenses and Working Capital Fund appropriations, and an additional $643.6 million via transfer of appropriated funds. The Working Capital Fund represents funds primarily used for Information Technology support for HUD's program Offices. The following chart reflects the allocation of the funding for Working Capital Fund and for Salaries and Expenses by program area and support offices.



*** Amount does not include $56.1 million for Policy Development & Research Program Area Funds.**
**** Includes transfers of appropriated funds ($643.6 million).**

The Office of Administration provides support to the Department in the areas of human resources, training, management and planning, administrative and management services, control and management of correspondence, security and emergency planning, and executive scheduling.

The Office of the Chief Financial Officer employs sound financial management practices to help meet the Department's mission. The Office provides critical support to HUD in the areas of accounting, budget, financial management, and systems.

The Office of the Chief Information Officer provides leadership, vision, and advice to the Secretary and other HUD senior managers on the strategic use of information technology to support core business processes and to achieve mission-critical goals.

The Office of the Chief Procurement Officer awards and administers contracts and purchase orders, and provides vital procurement services to HUD's program and support offices.

The Center for Faith-Based and Community Initiatives is one of 10 such centers established by the President in Cabinet level agencies. The Center's goal is to implement the President's vision of a compassionate community, where faith-based and community organizations work with government to help the needy in a more effective manner. One of the key principles in this Presidential initiative is that all groups, whether religious or secular, should compete on a level playing field when applying for federal funds. As a result, an important part of the Center's work is empowering faith-based and community organizations to apply for HUD grants. The Center does not make decisions on awarding grants, nor is there any preference for faith-based organizations. Instead, the Center works to remove unnecessary barriers in order to fully engage these organizations as partners in fulfilling HUD's mission.

A Capacity Building Workshop was hosted by the Region VI Faith-Based Council and the Fort Worth HUD Regional Office in May at the Tarrant County Community College (TCCC) - Northwest Campus in Fort Worth, Texas. These workshops are designed to encourage partnerships and to enhance organizational capacities. At the May workshop, approximately 65 individuals attended with representation from the faith-based and non-profit communities and local government agencies such as the U.S. Dept. of Health and Human Services, the Small Business Administration, Department of Labor, Veterans Affairs, U.S. Dept. of Education, University of Texas, HUD, and others.



Photos above, left to right: 1) Eva Concha Leblanc, President of Tarrant County Community College (TCCC) – Northwest Campus; 2) Janeen Smith, TCCC's Faith-Based Liaison; Nicolas Ramon, HUD's Region VI Faith-Based Coordinator; and Patricia Bostic representing Congressman Michael Burgess; and 3) some of the attendees conversing after the workshop.

The Office of Field Policy and Management provides direction and oversight for regional and field office directors. It communicates priorities and policies of the Secretary to these managers and ensures the effective pursuit of the Secretary's initiatives and special projects.

The Office of Congressional and Intergovernmental Relations is responsible for coordinating Congressional and intergovernmental relations activities involving program offices to ensure the effective and accurate presentation of the Department's views. The Office also is responsible for coordinating the presentation of the Department's legislative and budget program to the Congress. It also monitors and responds to the HUD-related activities of the Department's Congressional oversight, authorizing, and appropriations committees.

The Office of Departmental Operations and Coordination performs a broad range of cross-program functions that assist the Secretary and Deputy Secretary with HUD's continuing management improvement initiatives. The mission of the Office is to directly support the Departmental strategic goal to "embrace high standards of ethics, management, and accountability," and directly or indirectly support the remaining strategic goals to advance homeownership, affordable housing, stronger communities, fair housing, and participation of faith-based and community organizations.

The Office of General Counsel provides legal opinions, advice, and services with respect to all Departmental programs and activities.

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

The Office of Policy Development and Research is responsible for maintaining current information on housing needs, market conditions, and existing programs, as well as conducting research on priority housing and community development issues. The Office provides reliable and objective program evaluation, data, and analysis to inform policy decisions and improve program results. The Office is committed to involving a greater diversity of perspectives and methods in its research.

The Office of Public Affairs works closely with local and national news media, as well as HUD program and policy contacts, to demonstrate to the public what HUD is doing for them and their communities.

Risks, Trends, and Factors Affecting Goals

HUD's annual budget represents approximately 1.3 percent of the federal budget[1], 5.3 percent of the $670 billion invested in U.S. housing each year,[2] and 0.3 percent of the nation's $13.8 trillion gross domestic product. These small proportions imply that external factors both strongly influence HUD's mission accomplishment and extend beyond HUD's span of control. The Department's successes therefore result from better understanding such factors so the agency can plan for contingencies, form partnerships wisely, and strategically focus and leverage resources, management, and leadership initiatives where public benefits will be greatest.

Homeownership

National and regional economic conditions, as well as the actions of many private and public players, exert a critical influence on increasing homeownership and achieving HUD's specific performance goals for homeownership objectives. External factors affecting the national homeownership picture include population aging and household formation, childbearing and immigration, family incomes and consumer expectations, job availability and job security, real estate and construction costs, financial markets, and operating costs of housing.

The single family housing sector continued to slow dramatically during FY 2007 after the record setting pace of activity during 2005 and 2006. Seasonally adjusted annual rates for single family building permits in September, 2007, were 26 percent lower than a year earlier. New home sales in September were 23 percent below the September 2006 volume, and existing home sales were down 19 percent during the same period. [3]

The affordability of homeownership improved during FY 2007, after a decade of strongly increasing home prices. In September, the median sales price of an existing home was 4.2 percent lower than a year earlier. Restrictions on credit availability and a drop-off of investor purchase activity caused the inventory of homes for sale to increase by 16 percent over the past year. Even though new home sales were off 25 percent from year-earlier levels, the median new home price rose 5.0 percent over the past year.[4] At the same time, the mean or average new home sale price fell by 3 percent. This apparent contradiction reflects discounts on higher-priced homes, which may have kept their sales numbers from falling as much as unit sales of lower-priced homes. It is also true that median sales prices are sensitive to the distribution of sales across regions and so the higher median and lower mean prices may also reflect some shifting of regional sales patterns. The "housing opportunity index," calculated by the National Association of Home Builders and Wells Fargo, represents the percentage of houses that are affordable to a family with median income in metro areas. The index improved slightly to 43.1 percent in the second quarter of 2007, 2.5 points above the historically low level reported a year earlier. This

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[1] FY 2006 budget authority, from "Budget of the U.S. Government, Fiscal Year 2008: Historical Tables," Tables 5.2. One-time supplemental appropriations of $16.673 billion in FY 2006 for disaster recovery efforts are excluded from these calculations.

[2] Residential fixed investment. This and remaining statistics reported in this section, unless otherwise noted, are drawn from "U.S. Housing Market Conditions 2nd Quarter, 2007," available at **http://www.huduser.org/periodicals/ushmc.html**.

[3] New home sales and median prices are reported by the Census Bureau at **http://www.census.gov/const/www/newressalesindex.html**, and existing home sales and median prices are reported by the National Association of Realtors at **http://www.realtor.org/research.nsf/Pages/EHSdata**.

[4] Sales price data are not seasonally adjusted.

level of affordability remains substantially lower than the index value of 63.7 percent recorded in both 2002 and 2003. Non-family households generally have lower incomes than family households and thus face greater affordability challenges.

Higher mortgage interest rates, along with home prices, also affect the affordability of homeownership. Interest rates for 30-year fixed rate mortgages during FY 2007 averaged 6.4 percent, essentially unchanged from FY 2006 levels. These rates, although reasonable by historical standards, continue to exceed average rates experienced during the 2002–2005 period, and thus have the effect of constraining affordability from what it was previously. Interest rates are affected by external factors that include the Federal Reserve's interventions in financial markets to control inflation, and activity of investors in global capital markets.

Higher interest rates reduce the number of first-time homebuyers which then usually reduce the number of home purchase loans insured by FHA. Lower interest rates attract more first-time homebuyers, but they also increase the number of refinancings by existing homeowners. The result is that declines in interest rates may increase the number of first-time buyers served by FHA, but they also reduce the proportion of FHA-insured loans going to first-time homebuyers.

As borrowers and lenders have become more sensitive to default risks associated with adjustable rate mortgage products, fixed rate mortgages have regained market share. Fixed rate loans represented 89 percent of mortgages in the second quarter of calendar year 2007, compared with 75 percent a year earlier.

The current interest rate environment still offers much in the way of benefits for homeowners with subprime adjustable rate mortgages to refinance into fixed rate loans insured by FHA. Insurance endorsement activity in this area has been steadily increasing since early 2006. In FY 2007, FHA insured 78 percent more of these loans than it did in FY 2006 (107,746 versus 60,397).

The higher interest rates now being imposed upon homeowners with subprime adjustable-rate mortgages greatly increase the risk of default and foreclosure fore affected households. Liberalization of conventional mortgage credit terms during the recent housing boom also increased the risk that any housing price declines would reduce or eliminate home equity for many recent homebuyers, making foreclosure risk even greater. Mortgage default rates, which had been at record low levels a few years ago, increased sharply during FY 2007, especially among homeowners with subprime mortgages and those with adjustable rates. More than 1 million mortgages were in default or foreclosure as of June, 2007, an increase of 50 percent compared with June, 2005.[5] As reported by the Mortgage Bankers Association, the serious delinquency rate for all mortgage loans was 2.47 percent in the second quarter of 2007, up from 1.89 percent a year earlier. Much of the increase is due to rising defaults among subprime mortgages. Subprime mortgages experienced a 9.27 percent serious delinquency rate in the second quarter, 2007, up from 6.24 percent a year earlier. Subprime ARMs had a 12.4 percent seriously delinquent rate in the second quarter of 2007[6] The role of subprime lending in defaults

[5] See GAO-08-78R, "Information on Recent Default and Foreclosure Trends for Home Mortgages and Associated Economic and Market Developments."
[6] Estimates for the second quarter, 2007, are preliminary numbers that are consistent with those from "U.S. Housing Market Conditions."

is a significant risk factor for the national goal of increasing minority homeownership because a greater proportion of minorities have relied on subprime financing over the past six years.

FHA insured mortgages are the primary alternative to subprime lending. FHA's serious delinquency rate has been very constant over the past year, and the 5.18 percent rate reported by the Mortgage Bankers Association for the second quarter of 2007 is actually lower than the year-earlier rate of 5.40 percent. FHA has significant program safeguards that reduce and contain the risk of foreclosure for those borrowers that do experience a mortgage default. At the same time, FHA is now vulnerable to the risk of higher default and foreclosure rates because of softening housing prices in many areas of the country.

Default risk also has introduced uncertainty into the secondary mortgage market, and that has increased uncertainty in broader capital markets. A tighter supply of capital is reflected in increased rates of mortgage denials: the most recent data available from Home Mortgage Disclosure Act reporting by lenders show that 15.9 percent of mortgage applications were denied during 2006, up from 13.8 percent during 2005.

Such trends are a reversal of the loosening of underwriting standards in the conventional market that occurred in earlier years. This increases the value of FHA products, whose underwriting standards have not changed. HUD also has introduced a new initiative designed to make it easier for borrowers caught in subprime adjustable-rate mortgages with large increases in monthly payments to refinance into safer and more affordable loans. The FHASecure initiative, introduced at the end of FY 2007, offers affordable refinancing to borrowers who were steered into exotic high-cost loans with affordable teaser rates, but almost certain guarantees of large rate and payment increases in the future. Additionally, Ginnie Mae is creating a new security backed by FHASecure loans that will provide efficient market pricing and new funding sources for these loans.

Hurricane Katrina, which hit the Gulf Coast states late in FY 2005, alerted the nation to the affect of disaster-related losses of housing stock and displacement of families. An estimated 193,000 owner-occupied homes received major damage or were completely destroyed by wind or flooding during hurricanes Katrina, Rita, and Wilma.[7] A large proportion of these units were occupied by families with low- or very low-incomes. Evidence that severe hurricane activity may increase highlights the risk of extensive development of coastal areas in recent decades.

Economic weakness and unemployment that results from normal business cycle downturns typically are associated with fewer homebuyers applying for FHA loans and higher loan default rates. These factors frequently have a disproportionate affect on low-income households. Data from the Bureau of Labor Statistics show that unemployment remained at the relatively low level of 4.7 percent during the final quarter of FY 2007. In that good economic environment, FHA sharply increased, to about 91,000, the number of mortgagors who were able to resolve their mortgage defaults rather than going through foreclosure in FY 2007. Through interventions such as long-term repayment plans, loan modifications, and FHA's own partial claim assistance, more defaults were resolved and fewer homeowners lost their homes. Housing counseling is also proving effective in reducing the incidence of defaults.

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

In response to external factors, the Administration introduced FHA modernization legislation in FY 2006. FHA legislation is now under active consideration in both Houses of Congress. HUD would like to see a final bill that increases FHA's flexibility to manage its single-family insurance portfolio, and that expands the types of loans FHA can insure for first-time buyers in need of longer amortization periods or lower downpayments.

Internal factors, such as improving HUD's management practices and streamlining business processes, also affect the Department's ability to provide access to affordable housing and increase homeownership. FHA sustained the capital ratio of its Mutual Mortgage Insurance Fund at 6.4 percent during FY 2007, a time of challenging market conditions, with present and projected declines in home prices across the country that could last for up to three years. The capital ratio has a direct influence on FHA's ability to provide insurance coverage to homeowners. FHA's current business practices and initiatives, including FHA modernization legislation, reflect HUD's emphasis on improving products, reducing risk, and automating business processes. Proposed legislation will make FHA products more marketable, by introducing risk-based premiums, more favorable loan terms with higher loan limits, extended repayment time, and flexible down payment options.

Affordable Rental Housing

Affordable rental housing remains a challenging issue for the U.S. The most recent data show that in 2005, 5.99 million very low-income renter households had "worst case needs," either by having severe rent burdens (91 percent), severely inadequate units (4.4 percent), or both (4.3 percent).[8] An insufficient supply of units affordable to households with extremely low incomes is the primary cause.

External factors that affect the supply of affordable rental housing include tax policy, local rental markets, building codes and land use regulations, state and local program decisions, and the actions of HUD's many other partners. Although rental vacancy rates remain above historical averages, local rental markets vary substantially in the availability of housing that extremely low-income renters can afford without HUD program assistance. The rental vacancy rate was 9.5 percent in the second quarter of 2007, statistically unchanged from 9.6 percent a year earlier. The recent trend of unaffordable homeownership and mortgage difficulties are likely to increase rental housing demand.

In recent years, the largest federal expenditure for increasing the supply of affordable rental housing has been through the Low Income Housing Tax Credit. Equivalent to $5 billion of annual budget authority, the tax credit program, in combination with HUD and other programs, adds slightly more than 100,000 units annually, of which 95 percent qualify for affordability.[9] Constraints on federal resources for subsidy payments also affect HUD's ability to provide access to affordable housing. Substantial increases in voucher costs and utilization have strained HUD's Section 8 program resources. Changes in unemployment rates, in the cost of developing and maintaining housing, or in personal income – factors over which HUD has little control – all affect housing affordability.

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

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

Energy costs are often overlooked as a factor in housing affordability. The Joint Center for Housing Studies reports that 2.5 million households among the poorest quarter of households spent more than 30 percent of their budgets on home energy in 2003 (the date it was last measured).[10] Energy prices have increased sharply since then. Housing "fuels and utilities" prices increased by 23 percent between September, 2003, and September, 2007, as shown by the Consumer Price Index for urban consumers. Such energy price increases pose a risk for HUD's public housing and Section 8 programs, which cover utility costs as part of gross rents.

Following completion of a Harvard study of the operating costs of public housing and subsequent negotiation with PHAs, HUD has implemented regulatory changes to the operating subsidy program, moving to more efficient asset management practices used by private housing providers. The ability to reduce operating costs and retain savings under the new regulations will encourage PHAs to take advantage of financial incentives and strategies for reducing utility consumption. Energy Performance Contracts will be an important tool in a PHA's toolbox for controlling utility and maintenance costs. Energy Performance Contracting is an innovative financing technique that uses cost savings from reduced energy consumption to repay the cost for installing energy conservation measures. In addition, the Federal Energy Policy Act of 2005 extends the allowable payback period for energy performance contracts from 12 to 20 years. This longer payback period makes these contracts financially more attractive for small and medium size PHAs and can generate funding to incorporate more energy-saving retrofits into any Energy Performance Contract.

The supply of affordable rental housing for the elderly and persons with disabilities is also affected by external factors. The share of the population who are elderly (65 and older) is projected to increase from 12 percent of the population in 2000 to 20 percent by 2030, with rapid growth beginning around 2010. With improvements in health and longevity of the elderly population, helping them remain homeowners will become increasingly important. FHA's Home Equity Conversion Mortgage program is well-positioned to do so, endorsing nearly 108,000 reverse loans in FY 2007, a 14-fold increase since FY 2001. Other factors include local rental markets, building codes and land use regulations, state and local program decisions, and the actions of HUD's partners.

The Supreme Court held in 1999 that states must place persons with disabilities in community settings rather than institutions when treatment professionals determine that community placement is appropriate (Olmstead V. L.C. (98-536) 527 U.S. 581 (1999)). As a result of this decision, more persons with disabilities could be moving into communities while the supply of affordable housing remains low.

Tenant-paid rents are established as a percentage of income in HUD's rental assistance programs, so lower incomes necessitate greater subsidies just as higher rents do. For the same reason, tenants who under-reported income, and assisted housing providers who inadequately verified reported income, have over the years caused assisted housing resources to be misdirected to less needy families. The Department has made landmark progress in slashing these erroneous subsidies during the past several years, as noted in the Improper Payments discussion in Section 4 of this report.

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

A wide array of local factors, such as building codes and other regulations, affect the choices builders make in constructing and rehabilitating American homes. While HUD can encourage local communities to improve and enforce building codes and regulations, and can promote private rehabilitation, the Department cannot mandate these changes. Increasing building density and other land use factors also has major affects on an area's vulnerability to natural disasters and the magnitude of associated risk. Public awareness of these hazards and ways of reducing them is also important, but often lacking.

Equal Opportunity in Housing

Although fair housing law prohibits housing discrimination and provides victims with a system for obtaining legal recourse, recent research has revealed several barriers to achieving equal opportunity in housing.

The latest HUD study of **public awareness** of fair housing laws, "Do We Know More Now"[11] found a continuing widespread lack of knowledge of many aspects of the law. The overall index of fair housing awareness has not changed significantly since the first study in 2001. Statistically significant increases in awareness were observed for protections related to families with children and against racial steering. However, there has been a decrease in public awareness of prohibitions of discriminatory advertising on the basis of religion. A lack of awareness among the public of what constitutes housing discrimination greatly hinders HUD's ability to enforce fair housing laws, so the Department has greatly expanded education efforts as well as research in this area.

Although the study found widespread knowledge of and support for the prohibition of discrimination based on race, other recent HUD studies that use matched pairs of testers have found disparities in treatment of protected classes. Persistent discrimination has been found against African Americans, Hispanics, Asians, and Pacific Islanders in the residential sales and rental markets. HUD's Housing Discrimination Study 2000 showed that African American homebuyers experienced consistent adverse treatment in 17 percent of transactions, and Hispanic homebuyers experienced consistent adverse treatment in 20 percent of transactions. In the rental market, African Americans and Hispanics experienced consistent adverse treatment in 22 percent and 25 percent of transactions, respectively.

HUD also examined **discrimination experienced by Asians and Pacific Islanders** when they look for housing. The study found that Asian and Pacific Islander prospective renters experienced consistent adverse treatment relative to comparable whites in 22 percent of tests. Asian and Pacific Islander homebuyers experienced consistent adverse treatment 20 percent of the time.

The final phase of HUD's study of discrimination revealed that persons with disabilities also face substantial discrimination, including refusals to allow reasonable accommodations.

If the victim does not detect discrimination, it will not be redressed. Although we cannot measure to what extent this occurs, it clearly accounts for part of the gap between the number of housing discrimination complaints filed with HUD or state and local partners and the frequency with which African Americans, Hispanics, Asians, and Pacific Islanders experience adverse treatment according to HUD's Housing Discrimination Study 2000. Other factors also

[11] Available at www.huduser.org.

contribute to the underreporting of housing discrimination, such as a lack of awareness of how to file a complaint and a feeling that nothing would come of complaining. The "Do We Know More Now" study found that 90 percent of persons who felt they had experienced housing discrimination did nothing about it. Only one percent reported that they filed a complaint with a government agency.

Local policies, including land use controls and accessible building code enforcement, will continue to influence levels of discrimination. Private sector organizations likewise play a central role in achieving fair housing outcomes, often with HUD support. HUD continues to promote fair housing by investigating, conciliating, and prosecuting discrimination in the private market, while also ensuring non-discrimination in its own programs. FHA, which insures mortgages for low- and moderate-income borrowers, has worked to ensure equal housing opportunities through targeted marketing and outreach activities to unserved and underserved markets. FHA also has taken substantial steps to reduce the predatory lending activity that has had a disproportionate affect on minority households and neighborhoods, including denying FHA insurance for mortgages on homes that have been "flipped" at inflated prices and deploying special monitors to pursue unscrupulous appraisers and lenders.

Strengthening Communities

The economy produced 1.6 million new jobs during FY 2007, according to estimates of the Bureau of Labor Statistics. Most job creation is occurring in service-providing industries rather than goods-producing industries. The Bureau of Labor Statistics reports that manufacturing jobs declined from 13.2 percent to 9.8 percent of employment during the 1994–2004 period, and projects a smaller additional decrease to 8.2 percent of employment by 2014. Communities that continue to rely on manufacturing employment may be adversely affected by this trend, although such losses sometimes are compensated by economic transformation and gains in knowledge-based employment. These macroeconomic trends can affect the success of HUD's partnership efforts.

Community economic development is often challenged by imbalances in local job markets related to skill gaps or to mismatches between the locations of available jobs and unemployed workers. Many older communities also face fiscal pressures as they struggle to provide quality services, attract employers, and deal with deteriorated housing stock during a time of declining tax bases. Rural communities often face additional challenges because of the changing structure of the farming industry, under-investment, weak infrastructure, limited services, and few community institutions. Rural labor forces are more narrowly based and are more dispersed.

Gulf Coast Hurricanes have posed an unusual challenge for HUD's goal of strengthening communities, because much of the physical infrastructure, the local economy and community institutions, and household assets of the Gulf Coast were destroyed in one blow. HUD has marshaled a full range of program authority in the service of rebuilding New Orleans and other hurricane-damaged communities. Yet the hurricanes of 2005 reinforced the reality of the risks of disaster, whether of natural or other causes, to the fabric of America's communities.

Communities also have a great deal of flexibility when using HUD funds to address their economic conditions and community needs and take advantage of local opportunities. Many programs – particularly Community Development Block Grants – may be used for a wide variety of eligible activities at the discretion of the grantee. When communities choose to address job growth for low-income individuals, there are a wide variety of approaches that are difficult to measure. Some communities may support infrastructure to increase business development in certain areas, while others may directly apply funds toward preparing individuals for employment. Thus, the ability of communities to respond with discretion to local conditions also establishes constraints on setting goals and assessing results at a national level. HUD is working closely with state and local partners to enhance local accountability for results without restricting the flexibility provided by HUD's programs.

Community needs and urban conditions and challenges have evolved substantially over the past several decades. To continue to meet these challenges effectively, on June 5, 2007, HUD provided to Congress the Community Development Block Grant Reform Act of 2007, which included three significant changes to the current CDBG program:

- Formula Reform: Modifying the three decades old formula so that it more equitably targets funds toward today's types of community needs;
- Challenge Grant: Creating a challenge grant that rewards communities who concentrate their investments in distressed neighborhoods and can show the affect of those investments; and
- Performance Measures: Establishing stronger requirements to measure CDBG grantee performance and to hold grantees accountable for meeting their performance goals.

Research into the CDBG program and its affects have motivated the legislative proposals. A careful study has shown that over time the current formula has lessened in its ability to accurately target funds to the communities that most need them. Other research indicates that concentrated CDBG investment is effective at making neighborhood improvements. In addition, a government-wide effort to show the results that come from federal investment has highlighted the need for statutory reforms to enhance program accountability.

Success in aiding the homeless to become self-sufficient is also affected by a variety of factors beyond HUD's control. The incidence of homelessness is affected by macroeconomic forces such as unemployment levels, structural factors such as the supply of entry-level jobs, and the availability of low-cost housing. Personal factors such as domestic violence, substance abuse, mental illness, disabilities, and the extent of a person's educational or job skills also may underlie homelessness. Successful transitions to society from prisons, treatment facilities, or other institutions are now recognized as critical to reductions of chronic homelessness. HUD is promoting the implementation of local Homeless Management Information Systems, which are critical tools for serving the diverse needs of individuals more effectively.

Participation levels by partners in the provision of homeless assistance – including state and local agencies, nonprofit organizations, service providers, housing developers, neighborhood groups, private foundations, the banking community, local businesses, and current and former homeless persons – will substantially determine the success of homeless families and individuals in becoming more self-sufficient. Increasing fiscal strains on state and local governments may reduce their ability to make contributions towards HUD's objectives. State and local governments also make critical decisions about zoning and the use of funds from programs such as CDBG or HOME, Low-Income Housing Tax Credits, and tax-exempt bonds for rental housing, which may affect the local housing supply.

Economic downturns typically increase unemployment and can hamper self-sufficiency efforts. Recessions tend to affect homeless people and other low-income people disproportionately, because they are usually among the first to be laid-off, and generally have few marketable skills. Recent job creation in service occupations should make it easier for many low-skilled or inexperienced workers to enter the workforce in the coming years.

Many of the educational, training, and service programs available to help families make the transition to housing self-sufficiency are operated by local recipients of federal funds from agencies other than HUD. Such factors can constrain the Department's ability to achieve marked success in promoting housing self-sufficiency and homeownership of assisted renters.

HUD Management Challenges

Improving the efficiency and effectiveness of HUD's program delivery requires the Department to both sustain operational consistency in completed reforms and implement corrective actions on concerns discussed in the "Management and Performance Challenges" in Section 4 and "Management Assurances" discussions in Section 1 of this report.

To better ensure operational consistency, it is essential that HUD execute its **Strategic Five-Year Human Capital Management Plan** to address needs identified by recently completed workforce studies and assure mission-critical functions are adequately staffed and performed. Succession planning is critical, since HUD has an aging workforce in which over 58 percent of the employees are eligible to retire within three years. HUD's workforce planning is adversely affected when it does not receive sufficient funds to realize its authorized full-time equivalent staffing levels, due to across-the-board budget cuts or the need to fund salary increases that are not provided for in HUD's annual appropriations. During FY 2006, the Department implemented the HUD Training Strategy to address needs identified by staff through the 2005 Organizational Assessment Survey and the 2006 Workforce Planning Taskforce effort.

To use limited staff and resources more effectively, it also is essential that HUD sustain efforts to refine and strengthen the use of risk-based techniques for monitoring programs. When monitoring reveals significant performance and compliance problems, HUD must act appropriately to address those problems to minimize the risk and advance program objectives.

Adequate funding of HUD's information technology portfolio is a concern. Many of HUD's critical program and financial management systems are legacy systems dependent on outdated technology that is becoming increasingly difficult and costly to maintain. HUD needs the commitment and funding to modernize these antiquated and limited systems. It is also essential that HUD program managers assume a stronger systems ownership role in assuring that systems requirements and controls over data quality and security are properly established. These efforts will result in improved program delivery and better support for HUD's mission.

To further reduce improper payments in rental housing subsidy programs, HUD will need continued cooperation of its program partners and tenant groups to strengthen and adhere to internal controls that ensure appropriate subsidy payments go to intended beneficiaries. The Enterprise Income Verification System that HUD implemented during FY 2006 continues to enable HUD's PHA partners to more accurately verify tenant income. Expansion of this verification process to all rental assistance programs will likely eliminate the majority of improper payments in rental assistance attributable to tenant underreporting of income. Statutory changes should also be considered to simplify and standardize subsidy program requirements.

Finally, **continued improvement of HUD's acquisitions workforce** is important to assure timely award and proper administration and close out of the heavy volume of contract actions for information technology and other essential administrative and program services that HUD has outsourced. To address this need, the Department has strengthened certification and training standards for government technical representatives, hired additional staff, and installed new leadership in the Office of the Chief Procurement Officer.

President's Management Agenda

In FY 2002, the Office of Management and Budget (OMB) published the President's Management Agenda (PMA), as set forth by President George W. Bush, to implement government reform that is citizen-centered, results-oriented, and market-based. The Secretary and Deputy Secretary have emphasized, and HUD's Strategic and Annual Performance Plans reflect, activities designed to achieve the outcome goals of the PMA.

During FY 2007, these initiatives included (Year initiated):

- Strategic Management of Human Capital (FY 2002),
- Competitive Sourcing (FY 2002),
- Improved Financial Performance (FY 2002),
- Expanded Electronic Government (FY 2002),
- Performance Improvement (FY 2002),
- Improved HUD Management and Performance (FY 2002),
- Increased Faith-Based and Community Organization Participation (FY 2003),
- Eliminate Improper Payments (FY 2005), and
- Credit Program Management (FY 2006).

While the first five of these initiatives are government-wide, the last four were identified by OMB and HUD officials as significant areas for improved performance at the agency level. In order to ensure that the management orientation at HUD remains deeply committed to achieving PMA goals, the Secretary and Deputy Secretary have instituted the following activities to ingrain the PMA into HUD's normal management processes:

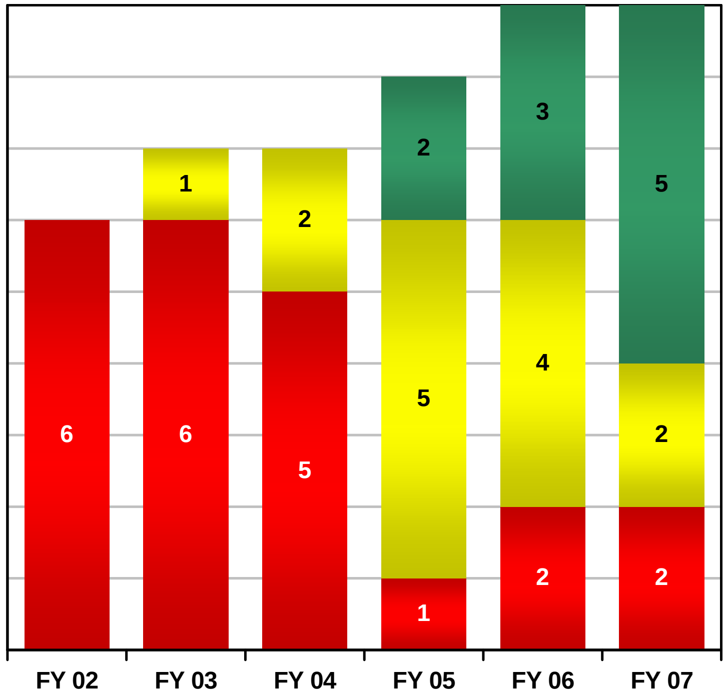
- Incorporated PMA goals in the Department's Strategic, Annual Performance, and Management Plans;
- Assigned Assistant Secretaries or equivalent level positions as PMA Initiative Owners with responsibility for planning, coordinating, and acting to achieve PMA goals;
- Developed an annual plan of actions and milestones to reflect where HUD would be "Proud-To-Be" on PMA goals, with quarterly refinements in discussion with OMB;
- Held quarterly meetings with OMB to review and discuss their quarterly scorecards on the status of overall goals and quarterly progress in completing the planned actions; and
- Communicated PMA criteria, plans, progress, and accomplishments to HUD staff and interested parties through print media, the HUD web site, and satellite broadcasts.

Following is a summary table followed by a detailed description of HUD's FY 2007 PMA activities and results to date:

HUD's Overall PMA Scoring Progress 2002-2007

OMB instituted a "stoplight" scoring system to evaluate the status and progress of each agency. At end of the first reporting cycle in June of FY 2002, most agencies, including HUD, were evaluated as mostly RED. Since that time, HUD has made steady progress in striving for GREEN status for all its initiatives.

As of the latest reporting cycle, ending June 30, 2007, HUD earned five GREEN scores, two YELLOW, and two RED status scores.



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

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

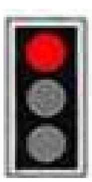
1. Human Capital. HUD has received a rating of YELLOW for status and GREEN for progress for this initiative. HUD's Human Capital initiative is structured to accomplish the PMA goal of having processes in place which ensure the right person is in the right job, at the right time, and is not only performing, but performing well.

The Department continues to demonstrate that, like the majority of agencies, the effective management of human capital is fast becoming one of HUD's most pressing needs. The Department continues to focus on the President's Management Agenda initiatives, which seek to ensure:

1) Optimization of HUD's organizational structure; 2) implementation of succession strategies to assure a continually-updated talent pool; 3) performance appraisal plans for managers and staff adhere to merit system principles, enabling accountability for results while linking the goals and objectives of HUD's mission; 4) sustaining the established processes that address diversified hiring practices; 5) continued reduction of mission critical skill gaps; and 6) that corrective actions will be taken based upon developed human capital accountability systems.

Through FY 2007, HUD has maintained a **GREEN** progress rating for Human Capital by aggressively accomplishing the following milestones:

- The successful implementation of its Human Capital Plan demonstrates that planning efforts analyzed implementation results relative to those plans, and were used in decision making to drive continuous improvement.
- The improved organizational structure and workforce plan provide greater efficiencies while reducing overall program costs and improving performance, along with competitive sourcing and E-Gov solutions as necessary.
- Through expansion of the performance pilot implemented in FY 2006, the Department is establishing a results-oriented performance culture. Clear performance expectations are being communicated to employees; ratings and awards are based on results; and supervisors throughout the Department are supporting both improved employee development and more effective appraisal of employee performance.
- The comprehensive strategy for improving HUD's hiring process has been fully implemented, ensuring that highly qualified candidates are recruited and retained. To date, at least 70 percent of agency hires are made and applicants notified of their status within 45 business days of the application deadline, significantly reducing the time to hire employees in mission critical functions.



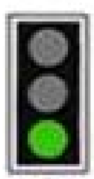
2. Competitive Sourcing. HUD has received a status rating of RED and a GREEN progress score for this initiative. Competitive sourcing is a process designed to ensure that the government acquires services at the best value for the taxpayer, regardless of whether the service provider is a public entity (government staff) or private entity (contractor staff). This initiative reflects the Government's commitment to find the most cost effective way to perform functions that are identified as potentially non-governmental, i.e., able to be performed by commercial entities without jeopardizing delivery of program services to citizens and HUD's clients.

Prior to the President's emphasis on competitive sourcing, HUD had already outsourced many of its services, and accordingly it must carefully consider the affect on program risk of any further outsourcing. To date, the Department had completed six competitions and will implement the results of five, with an anticipated cost savings totaling $15 million over a period of five years.

The competition which was not implemented was the A-76 review of the multi-family non-Section 8 Program Rental Housing Assistance contract administration function for contracts and assisted payments. This competition was undertaken to address high-risk deficiencies identified by the Government Accountability Office. The result of the competition indicated that an in-house developed program was the best source when compared to private-sector proposals. However, though the in-house program was less expensive than the private-sector bids, it would result in a request for increased budgetary resources. Concurrent with the period of the competitive sourcing review, other actions initiated by HUD management achieved performance improvements which resulted in removal of this function from GAO's high-risk designation. Accordingly, HUD chose not to incur the additional costs associated with the execution of the in-house A-76 proposal, as the desired result was already achieved.

During FY 2007, HUD announced a new Streamlined Competition for the Employee Service Center function within the Office of Administration that provides human resource management support.

The Department continues to explore opportunities for improving the efficiency with which we support our customers.



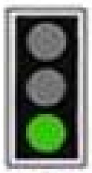
3. Improved Financial Performance. HUD is one of 12 of 26 major agencies to earn a **GREEN** rating. Financial performance is a significant indicator of an agency's ability to fulfill its mission and meet the needs of the citizens and their government. Adequate control over financial operations enables the agency to: reduce the risk of fraud, waste, and abuse; better assure that services are delivered to the public in a timely and cost effective manner; and provide support for informed budget and program decisions.

To these ends, the President has directed this initiative to: 1) Improve financial audit results; 2) Eliminate material weaknesses and strengthen internal controls; 3) Accelerate financial reporting; 4) Strengthen funds control and financial systems compliance; and 5) Improve the availability of financial data (dashboard reporting) needed to better inform budget and program decision-making.

During the year, HUD achieved the goals of this PMA initiative. In the first quarter of FY 2007, the agency's status was upgraded to **YELLOW,** and it was upgraded in the second quarter to **GREEN** based largely on:

- Achieving its seventh consecutive unqualified audit opinion on its consolidated financial statements,
- Eliminating its remaining material weaknesses,
- Meeting all accelerated financial reporting requirements,

- Developing of dashboard reporting from its Financial Data Mart, and plans for further improvement.
- Based on its results of its second annual assessment of the effectiveness of internal controls over financial reporting, the Secretary was able to report reasonable assurance that the Department's internal controls were operating effectively, and no material weaknesses were found in the design or operation of those controls in accordance with Appendix A of OMB Circular A-123.



4. Expanded Electronic Government. HUD was one of five government agencies that have achieved GREEN status, out of 26 agencies that were rated on this initiative as of June 30, 2007.

The President's E-Government initiative stresses the value of electronic methods for providing greater levels of public service at lower cost. HUD is a recognized leader among government agencies for this initiative. HUD's Office of the Chief Information Officer received the 2007 Laureate Medal from the Computerworld Honors Program in the Government and Non-Profit Organizations category. This medal was awarded for improving the Department's IT infrastructure to support transformation through shared services to produce measurable improvements.

Maintaining **GREEN** status over the past six quarters has required the Department to:

- demonstrate progress in developing and implementing Enterprise Architecture (using modern business practices),
- adhere to cost, schedule, and performance standards for major Information Technology projects,
- certify that all systems are secure with minimal risk of privacy violations (reducing the likelihood of identity theft), and
- complete all reports, certifications, notices, and assurances in a timely fashion.

HUD's commitment to E-Government and to the public we serve is ongoing and is well established.

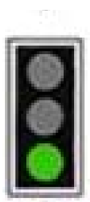
5. Performance Improvement Initiative. HUD has received a status rating of **YELLOW** and **GREEN** on progress for this initiative. The Performance Improvement Initiative is designed to ensure that performance is routinely considered in funding and management decisions, and that HUD's programs achieve expected results and work toward continual improvement. Additionally, this initiative provides for clear, measurable program outcome goals and indicators to support budget and resource allocation decisions based on performance results. OMB developed this initiative and the associated Program Assessment Rating Tool (PART) to better validate that programs have clearly defined and measurable program outcomes, efficiency measures, and marginal cost measures to inform the budget decision-making process.

HUD has maintained a status of **YELLOW** while working with OMB to complete 35 PART assessments covering all of HUD's major programs and nearly all of its annual budget authority. Of the programs assessed, OMB determined that 18, or 58 percent, were Effective, Moderately Effective, or Adequate. OMB rated the remaining 13 programs, or 42 percent, as either Ineffective or Results Not Demonstrated.

The PART results have been used to help make decisions in the President's Budget request to the Congress. HUD continues to work with OMB to more clearly define expected outcomes for each of its programs and to produce better outcome and efficiency measures that evidence the programs are cost-effective in producing desired results.

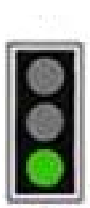
Throughout FY 2007, HUD clearly demonstrated its ongoing efforts to achieve the goals set forth in the President's Management Agenda. To date, HUD has:

- Improved the integration of budget and performance data in the preparation of its fiscal year budget submissions to OMB – which is a core tenet of the performance improvement initiative;
- Developed important legislation proposals – covering FHA, Public Housing Section 8 Housing Choice Voucher, CDBG, Homeless Assistance, and Housing Opportunities for Persons with AIDS programs – that will more clearly define and improve the performance outcomes of those programs; and
- Advanced the outcome performance of its programs, and made substantial progress in developing improved outcome metrics to measure that progress.



6. Improved HUD Management and Performance. The actions associated with this initiative have been successfully completed and HUD received a rating of **GREEN**. This HUD-specific performance indicator was primarily established to address GAO-designated high-risk program areas and material internal control weaknesses not addressed by the other initiatives of the PMA.

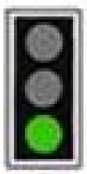
After the establishment of this HUD-specific initiative, the additional multi-agency PMA initiatives were added, (Eliminating Improper Payments and Credit Program Management), which continue to address some of the issues originally covered by this HUD-specific initiative. HUD developed corrective actions, implemented all internal control improvement plans, and achieved all initial performance goals on this initiative. Confirmation of HUD's mitigation of risk and correction of deficiencies came on January 31, 2007, when the Government Accountability Office released its biennial review of its high-risk programs, noting HUD's removal from the high risk program watch list.



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

The Department's objectives for this initiative include: reduce barriers to participation by faith-based and community organizations; conduct outreach and provide technical assistance to faith-based and community organizations to strengthen their capacity to attract partners and secure resources; and encourage partnerships between faith-based and community organizations and HUD's traditional grantees.

During FY 2007, HUD's Office of Faith-Based and Community Initiatives facilitated grant writing seminars in 33 cities, published practical guides both in hard copy and on-line for faith-based and community organizations, and developed and implemented various technical assistance programs to maintain its **GREEN** status on this initiative.



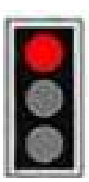
8. Eliminate Improper Payments. The Department continues to be one of only four out of 15 agencies evaluated to earn a **GREEN** status rating. This initiative implements the Improper Payments Information Act of 2002, which requires federal agencies to annually assess improper payment risks and to measure improper payment levels and report on progress in reducing those levels in programs and activities that may be susceptible to combined improper payments in excess of $10 million per year. The Act holds agency managers accountable for strengthening financial management controls in order to reduce any significant improper payment levels identified.

The specific objectives are to:

- Establish an annual agency-wide risk assessment process that identifies all programs at risk of significant improper payments;
- Provide for annual estimates of improper payment levels in at-risk programs;
- Analyze the causes of improper payments in at-risk programs to serve as the basis for setting reduction goals and corrective action plans; and
- Provide annual reporting of progress and results in attaining improper payment reduction goals.

In FY 2005, HUD became the first agency to earn a GREEN status by reaching full compliance with the Improper Payments Information Act of 2002, and achieved the President's goals for eliminating improper payments by reducing improper payments 55.7 percent from $3.43 billion to $1.52 billion.

Additionally, this year HUD executed a computer matching agreement with HHS to expand the National Directory of New Hires computer-matching program to HUD's multifamily housing programs; completed a cumulative total of 13,000 management and occupancy reviews; and provided satellite training and technical assistance on the Enterprise Income Verification (EIV) system throughout the nation. These programs, reviews, and training endeavor to ensure that limited housing resources are provided to the neediest recipients.



9. Credit Program Management. HUD earned a **RED** status rating and a **GREEN** for progress for this new initiative. This new initiative addresses the effectiveness of direct and guaranteed loan programs to ensure that HUD's credit programs are reaching the targeted borrowers at an acceptable, manageable risk level. Credit Program Management is applicable to the five largest credit agencies (Agriculture, Education, HUD, SBA, and VA) and Treasury. It covers loan origination (both direct and guaranteed), loan servicing/lender monitoring, and debt collection.

This is a relatively new initiative of the President's Management Agenda. As such, the specific criteria to determine HUD's credit program were only recently finalized by HUD and OMB. The criteria developed to measure achievement of the President's goal require that the Agency focus on identifying and developing business requirements for changes to FHA single family loan products to meet the needs of the nation, and identify and modify the systems and processes to meet the new requirements. It also requires modification of the multifamily Financial Assessment System so that troubled projects can be targeted for intensive monitoring by HUD.

Analysis of Financial Conditions

This section provides a summary of HUD's:

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

Summarized Financial Data

(Dollars in Millions)

	2007	2006
Total Assets	$111,074	$123,063
Total Liabilities	$20,361	$17,323
Net Position	$90,713	$105,740
FHA Insurance-In-Force	$399,960	$395,777
Ginnie Mae Mortgage-Backed Securities Guarantees	$427,600	$409,990
Other HUD Program Commitments	$65,472	$72,355

Analysis of Financial Position

Assets - Major Accounts

Total Assets for Fiscal Year 2007, as reported in the Consolidated Balance Sheets, are displayed in Chart 1. Total Assets of $111.1 billion are comprised primarily of Fund Balance with Treasury of $69.0 billion (62.2 percent) and Investments of $31.4 billion (28.3 percent).

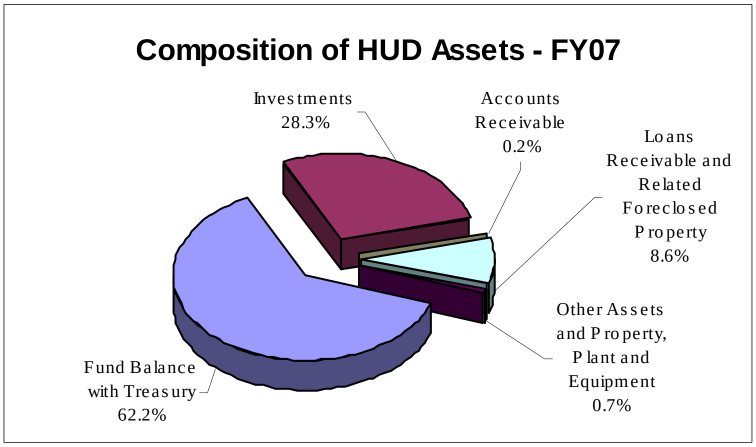


Chart 1 – Composition of HUD Assets –FY07

Total Assets decreased $12.0 billion (9.7 percent) from $123.1 billion at September 30, 2006 to $111.1 billion at September 30, 2007. The net decrease was due primarily to a decrease of $12.3 billion (15.2 percent) in Fund Balance with Treasury from $81.4 billion at September 30, 2006 to $69.0 billion at September 30, 2007.

Table 1 presents total assets for Fiscal Year 2007 and the four preceding years. The changes and trends affecting Total Assets are discussed below.

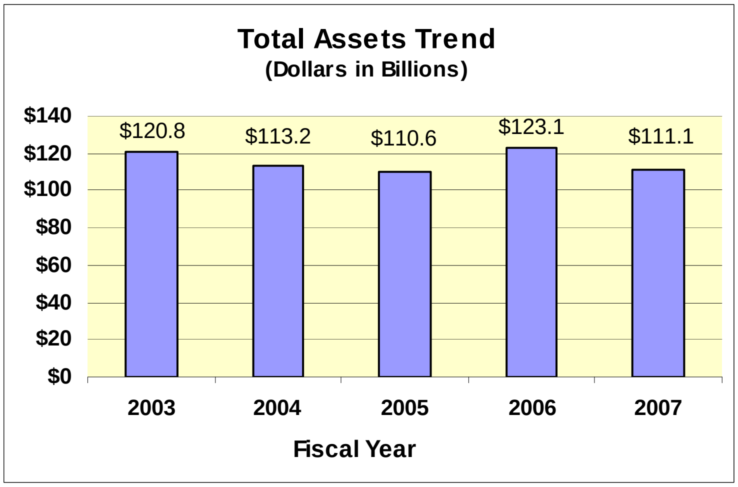


Table 1 – Total Assets Trend

Fund Balance with Treasury of $69.0 billion represents HUD's aggregate amount of funds available to make authorized expenditures and pay liabilities. Fund Balance with Treasury decreased due to a decrease of $7.1 billion in funding for the Community Development Block Program (CDBG), a decrease in funding for Section 8 of $3.2 billion and a decrease in funding for FHA of $1.0 billion.

Investments of $31.4 billion consist primarily of investments by FHA's Mutual Mortgage Insurance/Cooperative Management Housing Insurance Fund and by Ginnie Mae, in non-marketable market-based Treasury interest-bearing obligations (i.e., investments not sold in public markets). Compared to last fiscal year, there was an insignificant net increase in Investments.

Accounts Receivable of $0.3 billion primarily consists of claims to cash from the public and state and local authorities for bond refunding, Section 8 year-end settlements, sustained audit findings, FHA insurance premiums and foreclosed property sales proceeds. A 100 percent allowance for loss is established for all delinquent debt 90 days and over.

Loans Receivable and Related Foreclosed Property of $9.6 billion are generated by HUD's support of construction and rehabilitation of low rent housing, principally for the elderly and disabled under the Section 202/811 program, and FHA credit program receivables. Compared to last fiscal year, there was a decrease in Loan Receivable and investments in Related Foreclosed Property assets of $0.5 billion (4.7 percent).

Remaining assets of $0.8 billion, comprising 0.7 percent of Total Assets, include fixed assets and other assets. Net changes pertaining to remaining asset balances increased by 13.5 percent compared to prior fiscal year.

Assets - Major Programs

Chart 2 presents Total Assets for Fiscal Year 2007 by major responsibility segment or program.

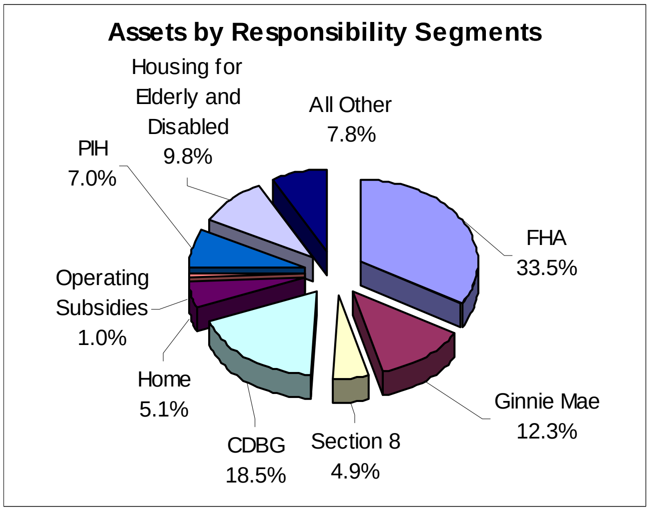


Chart 2 – Assets by Responsibility Segment

Liabilities – Major Accounts

Total Liabilities for Fiscal Year 2007, as reported in the Consolidated Balance Sheets, are displayed in Chart 3.

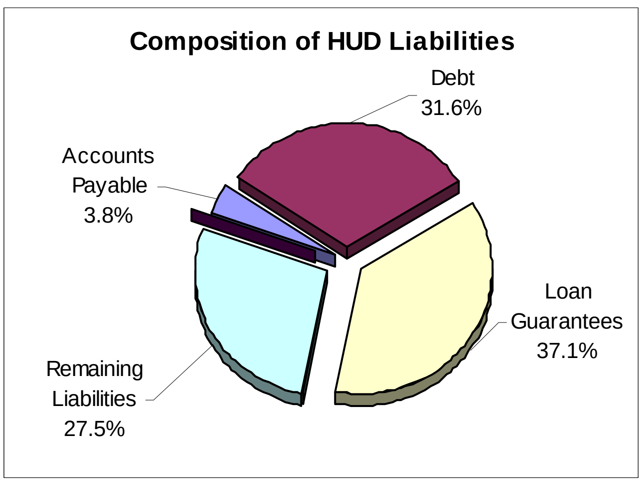


Chart 3 – Composition of HUD Liabilities

Total Liabilities of $20.4 billion consists primarily of debt in the amount of $6.4 billion (31.6 percent), loan guarantee liabilities of $7.6 billion (37.1 percent), accounts payable of $0.7 billion (3.8 percent), and remaining liabilities amounting to $5.6 billion (27.5 percent).

Total Liabilities increased $3.0 billion, 17.5 percent, from $17.3 billion at September 30, 2006 to $20.3 billion at September 30, 2007. The net increase in total liabilities was due primarily to a decrease of $2.1 billion in Debt, offset by a net increase of $1.1 billion in Remaining Liabilities and an increase of $4.0 billion in Loan Guarantees.

Table 2 presents total liabilities for Fiscal Year 2007 and the four preceding years. A discussion of the changes and trends affecting Total Liabilities is presented in the subsequent paragraphs.

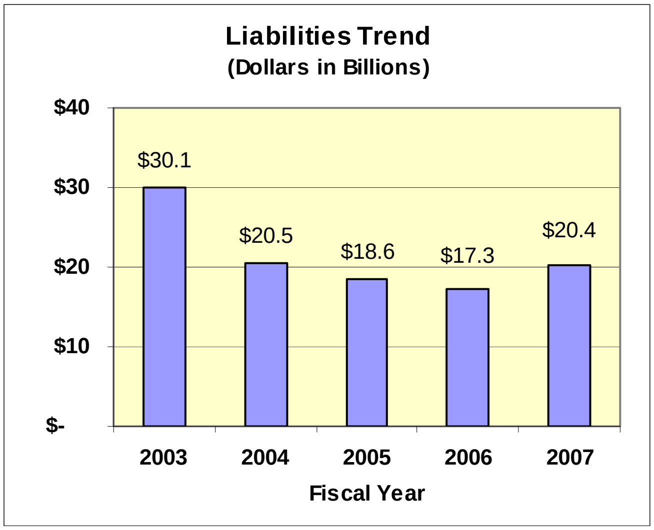


Table 2 – Liabilities Trend

Debt includes intra-governmental debt of $5.5 billion and debt held by the public of $0.9 billion. The intra-governmental debt consists of loans from the Treasury, Public Housing Authorities, Tribally Designated Housing Entities, Federal Financing Bank, and debentures issued by FHA in lieu of cash disbursements to pay claims. Debt held by the public consists of new housing authority bonds and FHA debentures issued to the public at par. The $2.1 billion decrease in debt (repayments exceed new borrowings) was primarily due to a $1.7 billion decrease in FHA debt.

Accounts Payable consists primarily of pending grants payments and cash claims for single family properties and multifamily mortgage notes assigned.

Loan Guarantees consist of the liability for loan guarantees related to Credit Reform loans made after October 1, 1991 and the loan loss reserve related to guaranteed loans made before October 1, 1991. The liability for loan guarantees and the loan loss reserve are both comprised of the present value of anticipated cash outflows for defaults such as claim payments, premium refunds, property expense for on-hand properties, and sales expense for sold properties, less anticipated cash inflows such as premium receipts, proceeds from property sales, and principal interest on Secretary-held notes. The increase in loan guarantees of $4.0 billion was primarily due to an overall increase guarantees for FHA programs.

Remaining liabilities of $5.6 billion consist primarily of Insurance Liabilities, Federal Employee and Veteran Benefits, and Other Liabilities. Net changes pertaining to remaining liability balances increased by $1.1 billion, 20.0 percent, as compared to the prior fiscal year.

Liabilities – Major Programs

Chart 4 presents Total Liabilities for FY 2007 by responsibility segment.

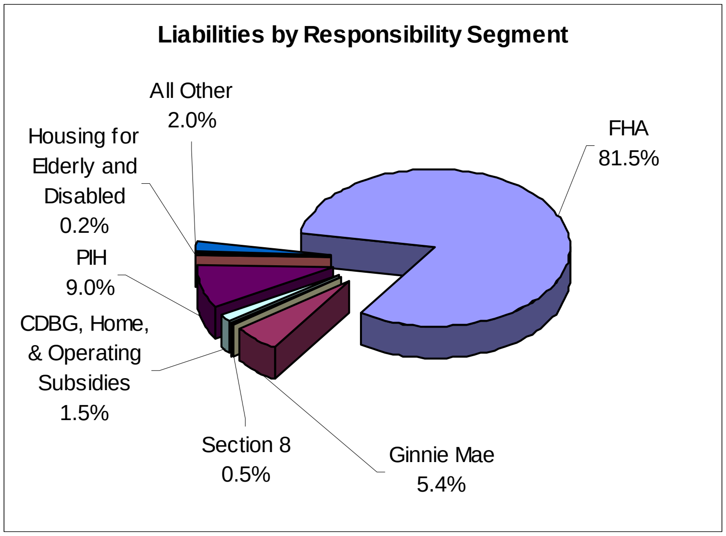


Chart 4 – Liabilities by Responsibility Segment

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 $15.0 billion or 14.2 percent from the prior fiscal year. This decrease in Net Position is primarily attributable to an $11.7 billion decrease in Unexpended Appropriations and a $3.3 billion decrease in cumulative results of operations (Financing Sources in excess of Net Cost of Operations).

Unexpended Appropriations, which decreased 17.7 percent from $66.2 billion in FY 2006 to $54.5 billion in FY 2007, represents the accumulation of appropriated funds not yet disbursed, and can change as the fund balance with treasury changes. A significant portion of these unexpended funds is attributable to long-term commitments as discussed in the following section.

Financing Sources: As shown in HUD's Statement of Changes in Net Position, HUD's financing sources (other than exchange revenues contributing to Net Cost) for Fiscal Year 2007 totaled $47.9 billion. This amount is comprised primarily of $51.0 billion in Appropriations Used, offset by approximately $3.1 billion in net transfers out. The transfers out consist of new FHA subsidy endorsements, credit subsidy upward re-estimates and the sweep of the General Insurance/Special Risk Insurance liquidating account's unobligated budgetary resources.

Net Cost of Operations, as reported in the Consolidated Statements of Net Cost, amounts to $51.1 billion for Fiscal Year 2007, and reflects a 22.5 percent increase as compared to prior fiscal year. Net Cost of Operations consists of total costs, including direct and indirect program costs, as well as general Department costs, offset by program exchange revenues (received in exchange for services provided by HUD).

Table 3 presents HUD's Total Net Cost for Fiscal Year 2007 by responsibility segment.

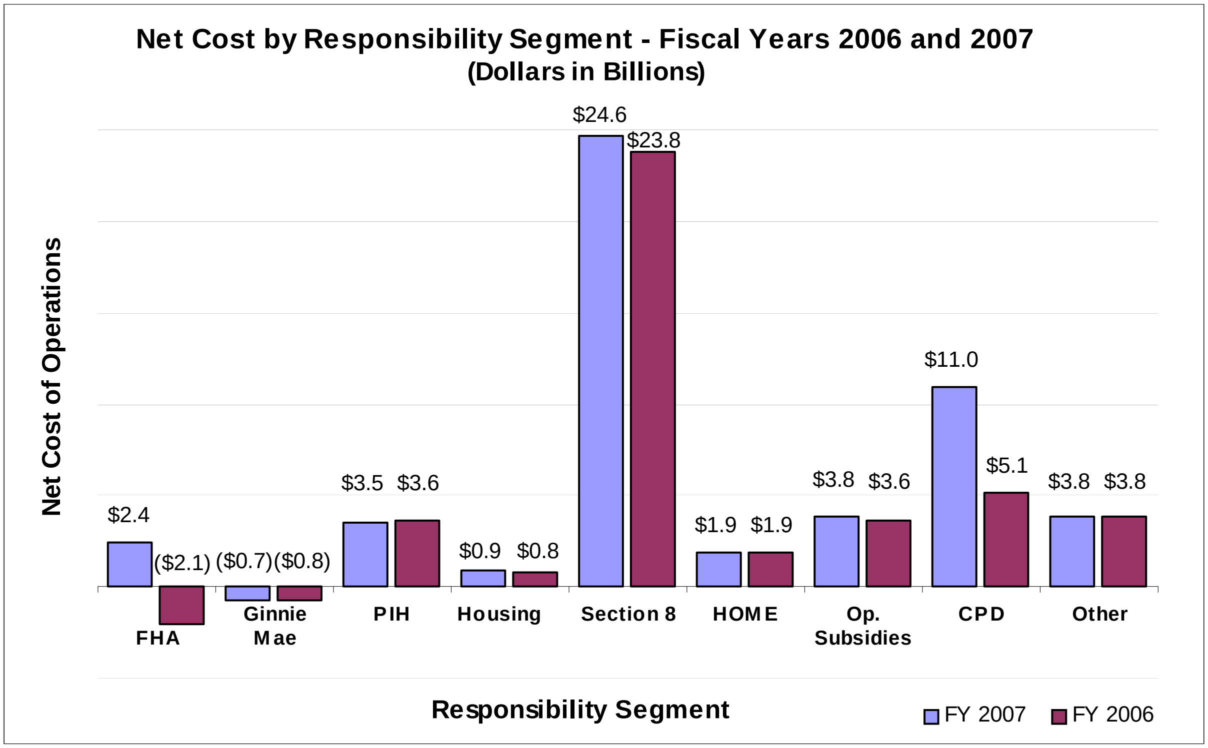


Table 3 – Net Cost by Responsibility Segment

As presented in Table 3, Cost of Operations was primarily a result of spending of $24.6 billion, 48 percent of Net Cost, in support of the Section 8 program (administered jointly by the Housing, Community Planning and Development, and PIH programs). The current fiscal year net cost of $24.6 billion for the Section 8 programs was $0.8 billion, or 3.4 percent, more than the prior fiscal year. Total HUD Net Costs include FHA net loss of $2.4 billion attributable to FHA's upward re-estimate of the anticipated long-term costs of its insurance programs.

Net Results of Operations

The combined effect of HUD's Net Cost of Operations and Financing Sources resulted in a 132.1 percent change in Net Results of Operations of $3.2 billion during Fiscal Year 2007. The significant year-to-year fluctuation shown in Table 3 is due primarily to the annual re-estimation of long-term credit program costs, which can be affected by both program performance and economic forecasts.

Table 4 presents HUD's Net Results of Operations for Fiscal Year 2007 and the four preceding years.

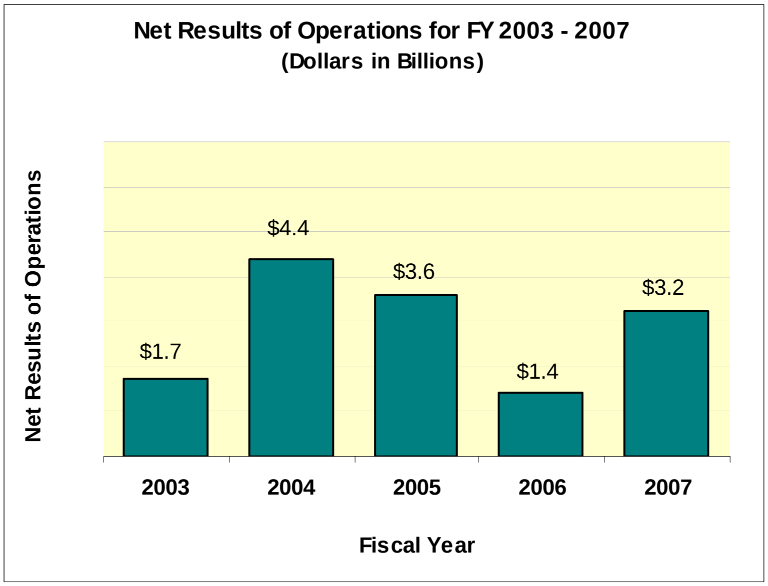


Table 4- Net Results of Operations Trend

Analysis of Off-Balance-Sheet Risk

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

Contractual and Administrative Commitments

HUD's contractual commitments of $65.4 billion in Fiscal Year 2007 represents HUD's commitment to provide funds in future periods under existing contracts for its grant, loan, and subsidy programs. Administrative Commitments (reservations) of $2.8 billion relate to specific projects for which funds will be provided upon execution of the related contract.

Table 5 presents HUD's Contractual Commitments for Fiscal Year 2007 and the four preceding years.

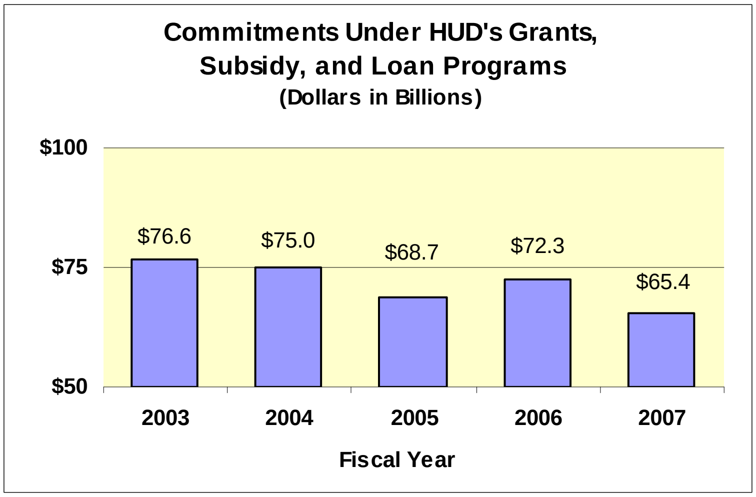


Table 5 – Commitments Under HUD's Grants, Subsidy and Loan Programs

These commitments are primarily funded by a combination of unexpended appropriations and permanent indefinite budget authority, depending on the inception date of the contract. HUD draws on permanent indefinite budget authority to fund the current year's portion of contracts entered into prior to Fiscal Year 1988. Since Fiscal Year 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 $7.0 billion, or 9.3 percent during Fiscal Year 2007. The change is primarily attributable to a decrease of $2.8 billion in Section 8 commitments along with decreases of $1.9 billion in CDBG, $0.1 billion in FHA, $1.1 billion in Section 202/235/236, $0.5 billion in PIH, and $0.6 billion in All Other commitments.

Table 6 presents HUD's Section 8 Contractual Commitments for Fiscal Year 2007 and the four preceding years.

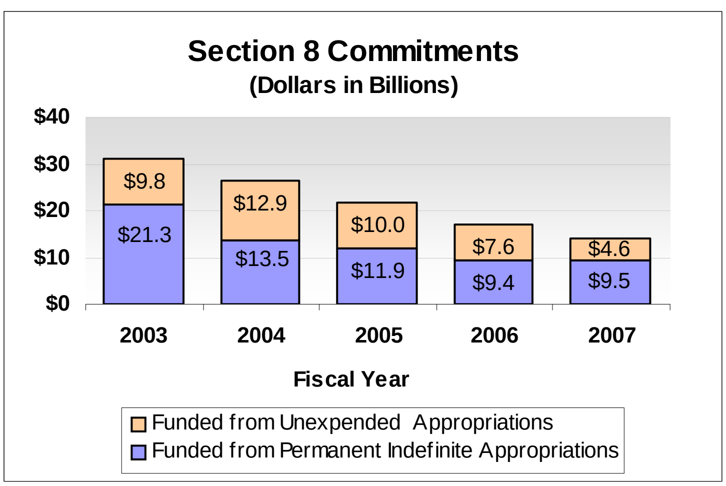


Table 6 – Section 8 Commitments

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

FHA Insurance-In-Force

FHA's total Insurance-In-Force increased $4.2 billion or 1.1 percent from $395.8 billion in Fiscal Year 2006 to $400.0 billion in fiscal year. The increase in FHA's Insurance-In-Force was primarily due to higher endorsements in the last quarter of Fiscal Year 2007 and an increase in the FHA reverse mortgage program (Home Equity Conversion Mortgages).

Table 7 presents FHA's Insurance-In-Force for Fiscal Year 2007 and the four preceding years.

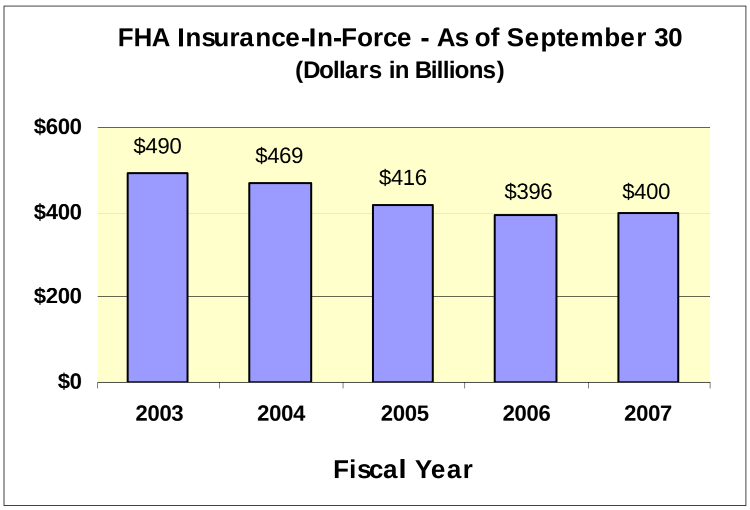


Table 7 – FHA's Insurance-In-Force at Year End

Ginnie Mae Guarantees

Ginnie Mae financial instruments with off-balance sheet risk include guarantees of Mortgage-Backed Securities and commitments to guaranty. The securities are backed by pools of FHA-insured, Rural Housing Service-insured, and Veterans Affairs-guaranteed mortgage loans. Ginnie Mae is exposed to credit loss in the event of non-performance by other parties to the financial instruments. The total amount of Ginnie Mae guaranteed securities outstanding at September 30, 2007 and 2006, was approximately $427.6 billion and $410.0 billion, respectively. However, Ginnie Mae's potential loss is considerably less because the FHA and Rural Housing Service insurance and Veterans Affairs guaranty serve to indemnify Ginnie Mae for most losses. Also, as a result of the structure of the security, Ginnie Mae bears no interest rate or liquidity risk.

During the mortgage closing period and prior to granting its guaranty, Ginnie Mae enters into commitments to guaranty Mortgage-Backed Securities. The commitment ends when the Mortgage-Backed Securities are issued or when the commitment period expires. Ginnie Mae's risks related to outstanding commitments are much less than for outstanding securities due, in part, to Ginnie Mae's ability to limit commitment authority granted to individual issuers of Mortgage-Backed Securities. Outstanding commitments as of September 30, 2007 and 2006 were $35.8 billion and $22.8 billion, respectively.

Table 8 presents Ginnie Mae Mortgage-Backed Securities for FY 2007 and the four preceding years.

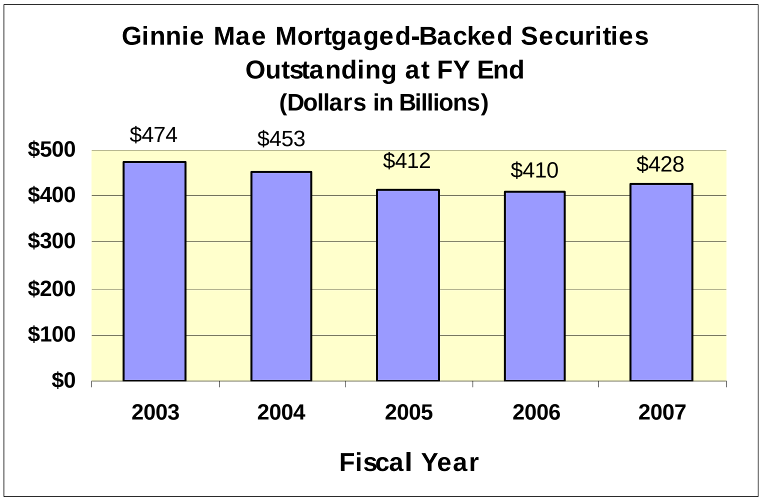


Table 8 -Ginnie Mae Mortgage-Backed Securities for FY 2007

Generally, Ginnie Mae's Mortgage-Backed Securities pools are diversified among issuers and geographic areas. No significant geographic concentrations of credit risk exist; however, to a limited extent, securities are concentrated among issuers. In FY 2007 and 2006, Ginnie Mae issued a total of $32.7 billion and $23.8 billion, respectively, in its multi-class securities program. The estimated outstanding balance at September 30, 2007 and 2006, were $201.0 billion and $198.7 billion, respectively. These securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the Mortgage-Backed Securities program.

Management Assurances of Management Controls, Systems, and Compliance with Laws and Regulations

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT AND INTERNAL CONTROL REPORTING

The Federal Managers' Financial Integrity Act (FMFIA) and the Office of Management and Budget (OMB) Circular A-123 are the main internal control requirements for the federal government. FMFIA explains management's responsibility for, and its role in, the assessment of accounting and administrative internal controls. The controls include program, operational, and administrative areas, as well as accounting and financial management. FMFIA Section 2 requires the agency head to annually assess and report on the effectiveness of internal controls that protect the integrity of federal programs. FMFIA Section 4 requirements are related to financial management systems reporting.

OMB Circular A-123 "*Management's Responsibility for Internal Control,*" provides guidance to management on improving the accountability and effectiveness of its programs and operations by establishing, assessing, correcting, and reporting on internal control. Essentially, management is responsible for developing and maintaining internal control to administer an effective and efficient operation, reliable financial reporting, and compliance with applicable laws and regulations. Additionally, agencies are to provide an assurance statement on the effectiveness of its internal control over financial reporting and are expected to integrate its efforts to meet the requirements of FMFIA. OMB Circular A-123 requires management to issue consolidated assurance statements to address the overall adequacy and effectiveness of internal control within the agency, the effectiveness of the agency's internal controls over financial reporting, and whether the agency's financial management systems conform to government-wide requirements.

For FY 2007, no material internal control weaknesses were identified for the Department. The Secretary's 2007 Annual Assurance Statement is provided on the following page.

FMFIA 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, 2007, was operating effectively and no material weaknesses were found in the design or operations of the internal controls.

In addition, HUD conducted its assessment of the effectiveness of internal control over financial reporting, in accordance with the requirements of Appendix A of OMB Circular A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, HUD can provide reasonable assurance that internal control over financial reporting, as of June 30, 2007, was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

Alphonso Jackson
Secretary of Housing and Urban Development

REPORTABLE CONDITIONS/SIGNIFICANT DEFICIENCIES

In FY 2007, SAS 112 *Communicating Internal Control Matters Identified in an Audit*, changed the term "reportable condition" to "significant deficiency." A "significant deficiency" is a deficiency in internal control, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles. The term "significant deficiency" aligns with the "reportable condition" definition previously used by management to prepare our FMFIA assurance statement. Reportable conditions are internal control deficiencies that represent weaknesses in the design or operation of internal control that could adversely affect the organization's ability to meet its internal control objectives. For the purpose of this report, the terms "reportable condition" and "significant deficiency" are used interchangeably.

At the beginning of FY 2007, HUD had nine significant deficiencies. While progress was made in addressing each of these deficiencies in FY 2007, these deficiencies remain open pending further corrective action. During FY 2007, HUD Management decided to add three new significant deficiencies, "*Section 8 Project-based Housing Assistance Payment Contracts, HECM Credit Subsidy Cash Flow Model, and Ginnie Mae Mortgage Backed Securities (MBS) Monitoring,*" increasing the total number to 12 significant deficiencies. The charts below summarize HUD's reportable conditions/significant deficiencies, and show the accomplishments and planned actions for each issue in FY 2007 as follows:

Significant Deficiencies
FY 2007 Status

Carry Over/Issues	Significant Deficiency	Status at End of FY 2007
SD1	Performance Measures	Open
SD3	PHA Monitoring	Open
SD4	HUD's Computing Environment	Open
SD7	Obligation Balances	Open
SD13	Resource Management	Open
SD14	Management Controls	Open
SD16	Single Audit Act Coverage	Open
SD18	Controls Over Rental Housing Assistance	Open
SD19	Departmental Financial Management Systems	Open
SD20*	Section 8 Project-based Housing Assistance Payment Contracts *	Open
SD 21*	HECM Credit Subsidy Cash Flow Model *	Open
SD 22*	Ginnie Mae Mortgage Backed Securities (MBS) Monitoring *	Open

* New in FY 2007

ACTIONS ON REMAINING SIGNIFICANT DEFICIENCIES

Significant Deficiency/Problem Statement	FY 2007 Accomplishments	Planned Actions
Performance Measures HUD needs to improve quality controls over performance measure data to ensure data: 1) accuracy, 2) timeliness, 3) estimation, and 4) availability.	❖ Implemented all corrective actions identified during data quality assessments. ❖ Integrated maintenance of data quality control in normal business practices of system sponsors, and addressed compliance as a critical element in staff performance standards. ❖ Completed eight data quality assessments (CHUMS, HOPE VI, IDIS-HOME, PIC, PIH-LOTUS, RESPA, IDIS-CDBG, MFIS) and certified two additional HUD information systems (CTS and WASS). ❖ Updated the critical systems list to ensure that semi-annual disaster recovery testing focus on assuring their availability.	❖ Assess data quality of information systems whose data supports HUD's performance reporting.
Public Housing Agency Monitoring Continued efforts are needed to improve housing authority monitoring to ensure that program funds are expended in compliance with laws and regulations.	❖ Assessed monitoring, management, and operations of eight field offices during the Quality Management Review on site visits and provided technical assistance. ❖ Completed onsite internal control reviews at two field offices not included in the Quality Management Review process. ❖ Moved the temporary Consolidated Tracking Tool, used to warehouse field monitoring activities, to the Consolidated Compliance Management, a permanent IT system. ❖ Completed comprehensive coordinated reviews of 113 Public Housing Agencies (PHAs). These represented twenty percent of the PHAs that receive eighty percent of PIH funding. Based on risk assessment, an additional 1,591 limited reviews of PHAs were completed. These represented a variety of specific areas including environmental, PHA certifications, Independent Assessments, procurement, and Section 8 Management Assessment Program confirmations. ❖ Developed and field tested a management review protocol at 116 PHAs in preparation for the transition to asset management.	❖ Revise existing risk-based monitoring approach for PHAs to conform with changes related to Asset Management. ❖ Work with the Enforcement Center to develop sanction standards that would be consistently applied against PHAs when violations of compliance have been identified. ❖ Recommend changes to the Audit Compliance Supplement to include additional programmatic areas in their review. These changes would be for auditors charged with annual audits of PHAs.
HUD's Computing Environment Controls over HUD's computing environment can be further strengthened to reduce the risks associated with safeguarding funds, property, and assets from unauthorized use or misappropriation.	❖ Completed planned improvements to the protection of HUD's Network by implementing Network Security Controls. ❖ Installed Intrusion Detection System Software sensors on all servers. ❖ Implemented CHAMP, the replacement system for the HUD On-Line User Registration System to support administrative workflow, multilevel approvals, self-registration, and reporting on systems access rights. ❖ Implemented a compliance review process to ensure	❖ Monitor the inventory of HUD information systems to ensure completeness and categorization of all information systems according to FIPS 199. ❖ Oversee the weakness remediation process and coordinate corrective actions of system owners to achieve significant reduction in

Significant Deficiency/Problem Statement	FY 2007 Accomplishments	Planned Actions
	conformance with published security baseline configuration standards. ❖ Continued to perform quarterly reviews with program offices to monitor the quality of security documentation. ❖ Developed and delivered specialized training for program office system owners that covered risk assessment, framework for security planning, and contingency plan testing. ❖ Issued a memorandum to senior program staff from the Deputy Secretary and conducted biweekly meetings with the program information system security officers to ensure compliance with the IT Security Policy and to evaluate the status of remediation activities. ❖ Reviewed and recategorized the systems' security impact levels to ensure compliance with Federal Information Processing Standards (FIPS) 199, "Standards for Security Categorization of Federal Information and Information Systems," and National Institute of Standards and Technology Special Publication (NIST SP) 800-60, "Guide for Mapping Types of Information and Information Systems to Security Categories." ❖ Managed the development of privacy impact assessments for all major applications and new systems. Prepared a template to ensure that assessments prepared for all systems that contain personally identifiable information (PII) are in accordance with OMB Memorandum M-03-22, "OMB Guidance for Implementing the Privacy Provisions of the E-Government Act of 2002." ❖ Developed a new interconnection security agreement template for HUD systems connected to other agencies' systems to ensure that security controls for the interconnections are in place. ❖ Acquired a web application verification and validation tool, and began evaluation of HUD Web applications. The Office of the Chief Information Officer (OCIO) provided training to program offices on use of the tool for testing application technical controls. ❖ Reviewed and revaluated risk assessments and business impact analyses on each system. System documentation weaknesses were identified and corrected. ❖ Initiated a comprehensive review of E-Authentication Risk Assessments (ERA) to ensure the quality of information provided by system owners and full compliance with OMB Memorandum M-04-04, "E-Authentication Guidance for Federal Agencies." This effort has included development of a standard template, revised instructions, provision of ERA training, and development of updated policies and procedures for performing ERAs.	system risks. ❖ Implement processes that result in full and timely reporting and resolution of security incidents. ❖ Ensure that all general support systems and major applications are certified and accredited prior to being placed into production.

Significant Deficiency/Problem Statement	FY 2007 Accomplishments	Planned Actions
Obligation Balances HUD needs to improve controls over the monitoring of obligated balances to determine whether they remain needed and legally valid as of the end of the fiscal year.	❖ Fully implemented the Section 236 internal control procedures. ❖ Reconciled and de-obligated terminated/inactive Section 236 Interest Reduction contracts in coordination with the Office of Housing, resulting in approximately $118.4 million in recaptures. ❖ Reconciled Rental Supplement and Rental Assistance Program Subsidy contracts in coordination with the Office of Housing and recaptured approximately $76.4 million and $56.2 million, respectively. ❖ Completed clean-up and follow-up on backlog of contract and program closeout actions so that un-liquidated obligation balances on expired activity can be properly de-obligated. As a result, the amount of excess unexpended funds at fiscal year declined significantly in comparison to past years. ❖ Recouped $21.5 million in Section 8 funds due to HUD from the Performance Based Contract Administrators.	❖ Continue to perform quarterly reconciliations of the Section 236 IRP portfolio. ❖ Work with the Office of Housing to develop procedures and implement an improved Rental Supplement/Rental Assistance Payment subsidy contracts review process. ❖ Continue to work with the HUD Contracting and Procurement Office and Program Offices to close-out expired administrative and program contracts in a timely manner.
Resource Management HUD needs to develop a comprehensive strategy to manage its resources and better estimate staffing needs and support its staffing requests.	❖ Started implementing e-Recruit that will allow applicants applying for HUD jobs to apply on line. ❖ Documented/submitted competency gap targets and staffing projections for mission critical occupations, human resource management, and leadership positions. ❖ Reported the agency's strategy for implementing the Annual Employee Survey. ❖ Continued to implement the Hiring Improvement Strategy. ❖ Submitted a final report on the Service Level Agreement pilot with the Human Capital Vision Plan. ❖ Met Office of Personnel Management's (OPM) government-wide 45-day average recruitment time standard. ❖ Issued Human Capital Accountability Audit Report. ❖ Developed and began implementing HUD's Succession Management Plan, which was approved by OPM. ❖ Expanded the performance management "Beta Site" to include six additional program offices, nearly doubling the number of employees covered for results-oriented performance plans. ❖ Implemented the new ePerformance system to fully automate the steps of the performance management process. ❖ Completed Resource Estimation and Allocation Process (REAP) study of Housing's Single Family Homeownership Centers to determine recommended staffing levels. ❖ Piloted the Total Estimation and Allocation Mechanism System (TEAM) Allocation Module in the Office of Fair	❖ Continue to reduce competency gaps in leadership, mission critical occupations, human resources, and information technology. ❖ Prepare gap analysis report and improvement plan for acquisition occupation. ❖ Implement "SMART" performance plans for the remainder of HUD staff and continue to conduct performance management training, to include SMART performance standards for managers, supervisors and employees. ❖ Continue reporting on the agency's efforts toward meeting OPM's 45-day hiring timeline for non-SES positions and the 61-day hiring timeline for SES positions. ❖ Continue implementing HUD's Succession Management Plan. ❖ Prepare 2007 Human Capital Accountability report. ❖ Continue to conduct performance management training, to include SMART performance standards for managers, supervisors and

Significant Deficiency/Problem Statement	FY 2007 Accomplishments	Planned Actions
	Housing and Equal Opportunity (FHEO) to facilitate distribution of staff based on Management Plan and workload priorities. ❖ Justified staffing requests in the FY 2008 Congressional Budget justifications and the FY 2009 OMB submission using REAP/TEAM data analysis. ❖ Utilized REAP/TEAM data analysis in evaluating hiring decisions.	employees. ❖ Use Single Family Housing REAP study data as part of Housing's workforce and succession planning efforts. ❖ Complete REAP studies in selected program areas to estimate both staffing needs and staffing locations. ❖ Implement the TEAM Allocation Module to enable distribution of staff based on Management Plan and workload priorities. ❖ Use REAP/TEAM data analysis to support the Department's budget requests.
Management Controls Weaknesses in the Department's control environment affect HUD's ability to effectively manage its programs.	❖ Continued participation in the Quality Management Reviews to assess field offices' performance, identify deficiencies, and develop corrective actions. Eight reviews were completed in FY 2007. ❖ Issued A-123 Statement of Assurance on Internal Control over Financial Reporting.	❖ Update the Departmental Management Control Handbook 1840.1 Rev-3 to reflect OMB Circular A-123 changes and improve FERA guidance. ❖ Continue to work with agency program offices to analyze, document, and correct internal control weaknesses and other deficiencies.
Single Audit Act Coverage HUD needs to improve its oversight of program participant compliance with the Single Audit Act requirements, and consider central oversight of single audit results.	❖ Participated in HUD's Quality Management Reviews by examining the field office's documentation that supports the agencies compliance with the Single Audit Act guidance. ❖ Continued modification of a Single Audit Act Interface/Module – to identify, download and integrate HUD data from the Federal Audit Clearinghouse's two separate tracking systems.	❖ Complete the new Single Audit Act module in HUD's Audit Resolution and Corrective Action Tracking System.
Controls Over Rental Housing Assistance HUD needs to improve its internal controls over subsidy determinations and payments in its rental housing assistance programs.	❖ Finalized the Computer Matching Agreement (CMA) between HUD and HHS to expand the National Directory of New Hires (NDNH) computer-matching program to Multifamily Housing. ❖ 98.61% of all PHAs have access to EIV. ❖ 94.17% of PHAs with EIV access have used the system in their day-to-day operations. ❖ Published proposed rule requiring SSNs for all program	❖ Conduct conference calls with Housing RHIIP Help Desk Representatives to ensure accurate and consistent rental assistance policy. ❖ Provide Technical Assistance and additional Satellite training on Enterprise

Significant Deficiency/Problem Statement	FY 2007 Accomplishments	Planned Actions
	participants and PHAs to use the EIV system. This is for the purpose of improving computer matching programs, deter fraud within HUD rental assistance programs, and improve subsidy determinations.	Income Verification (EIV) system for Multifamily Housing. ❖ Complete a cumulative total of 15,000 Management and Occupancy Reviews for FY08 to identify and correct errors in the application of rental assistance policy. ❖ Issue updated policy guidance in Handbook 4350.3 Rev-1, Occupancy Requirements for Subsidized Multifamily Housing Programs to ensure program participants and Public Housing Authorities are aware of rental assistance policy changes. ❖ Establish a set of electronic transaction rules, validations, and transmission format standards that allow Housing to exchange data with its partners using the existing Electronic Data Interchange (EDI) protocol and/or a new EDI protocol. ❖ Develop an Error Tracking Log and User Guide for HUD and Contract Administrator staff to detect, document and report tenant error data. ❖ Develop a training course for HUD and Contract Administrator staff on using the Error Tracking Log User Guide to detect, document, and report income data errors. ❖ Increase percentage of Public Housing Authorities using EIV to 96% ❖ Improve tenant data reporting for both PIH and Multifamily Housing.
HUD's Departmental Financial Management Systems	❖ Modified the HUD Information Technology Services contract to include FHA's Subsidiary Ledger at the Data Center in Charleston, West Virginia. Back-up process has been successfully tested. ❖ Enhanced controls in FHA's User Access Request process. FHA has submitted all user names to OCIO	❖ Reconcile Complete list of users ❖ Complete the procurement of a highly qualified systems integrator and hosting service provider to support HUD's implementation of a

Significant Deficiency/Problem Statement	FY 2007 Accomplishments	Planned Actions
	and is in the process of reconciling with the OCIO. ❖ Developed and tested Contingency and Business Resumption Plans that incorporated disaster recovery procedures. ❖ Completed comprehensive functional, business, data, and system security requirements for HUD's integrated financial system for the Department.	"modern integrated core financial management system." ❖ Complete the CFO and FHA transition to the integrated core financial system in FY 2009 that includes the integration, interfaces, and replacement of existing systems that do not support the new system or that perform redundant core financial functions. ❖ Complete integration of program feeder systems with FHA subsidiary ledger, which were delayed due to system funding cuts.
Section 8 Project-based Housing Assistance Payment Contracts Improved controls are needed for budgeting, renewing, amending and paying Section 8 Project-Based Housing Assistance Payment Contracts.	❖ Fully funded obligations for the annual 12-month renewal periods of contract actions executed during the first three quarters of FY 2007 under previous contract terms. ❖ Revised contract terms for additional renewals processed in the fourth quarter of FY 2007, and for the future, to correctly structure an "incremental funding" clause to enable HUD to properly split the funding of annual contract renewals between two consecutive federal fiscal year appropriations. ❖ Re-estimated the funding needs of the remaining "long-term" Section 8 contracts, using OMB's current budget inflation factors, and recaptured excess funds for use in covering HUD's FY 2007 Section 8 contract renewal funding needs and rescission mandate.	❖ Revise the Section 8 Project Based Assistance Funds Control Plans to reflect the improved incremental funding terms and processes. ❖ Develop automated models to accurately forecast budgetary needs so that each year's budget request is sufficient to fund all annual Section 8 Project Based Assistance contract renewals and amendment needs on remaining long-term contracts. ❖ Complete on-going Section 8 Project Based Assistance data quality clean-up effort and institute controls to assure data quality on an on-going basis. ❖ Re-estimate FY 2008 and FY 2009 funding needs for OMB and Congress, considering new process, models and verified data. ❖ Complete the Rental Housing Assistance Business Process Improvement and Reengineering Project to provide the long term solution for streamlining and automating Section 8 PBA contract management and payment processing. ❖ Provide sufficient resources

Significant Deficiency/Problem Statement	FY 2007 Accomplishments	Planned Actions
		for systems development and administration.
HECM Credit Subsidy Cash Flow Model Improved quality controls are needed to ensure accurate data is entered into the Home Equity Conversion Mortgage (HECM) Model.		**Subject to change based on pending approval from Housing.** ❖ Develop improved up-front quality controls to ensure data entered into the HECM model has been validated.
Ginnie Mae Mortgage Backed Securities (MBS) Monitoring Improved program compliance and controls regarding monitoring of issuers are needed.		❖ Improve regular communications among Senior Officials of Ginnie Mae. ❖ Review and strengthen, where appropriate, the pool verification matching process. ❖ Develop reports related to issuer compliance that provide Senior Management with information for decision making purposes.

SYSTEMS NON-CONFORMANCE ISSUES

OMB Circular A-127 and the Federal Financial Management Improvement Act of 1996 (FFMIA) establish federal financial management system criteria. Section 4 of FMFIA states the requirements for reporting instances of material non-conformance with the criteria, which includes preparing remediation plans that address the non-conformance. Compliance with OMB Circular A-127 is guaranteed when the system meets the 12 requirements in Section 7 of the OMB Circular. OMB guidelines assert that departments and agencies are compliant with the Federal Financial Management Improvement Act when they can:

- Prepare financial statements and other required financial and budget reports using information generated by the financial management system(s);
- Provide reliable and timely financial information for managing current operations;
- Account for their assets reliably, so that they can be properly protected from loss, misappropriation, or destruction; and
- Do all of the above in a way that is consistent with federal accounting standards and the Standard General Ledger.

A system is deemed non-conforming when the system does not comply with one or more required factors. The materiality or severity of the affect of non-conformance is evaluated against the overall capability of the system to consistently generate accurate and reliable financial information as required by agency management. During FY 2007, HUD identified no new material non-conformance concerns and maintained its focus on successfully implementing its aggressive approach to address any carry-over non-conformance issues related to Departmental Financial Management Systems.

An integrated core financial management system will ensure HUD is positioned to adapt newer technologies to support the Department's current and future business requirements. HUD is currently sponsoring a major financial systems modernization project, the HUD Integrated Financial Management Improvement Project, referred to as HIFMIP. The project includes establishing an enterprise vision to achieve an integrated financial management solution for the Department.

STATUS OF REMAINING SYSTEMS NON-CONFORMANCE ISSUES

HUD's continuous task of enhancing its federal financial management systems was demonstrated by the following FY 2007 results:

- Implementation of a remediation plan and strategy to correct non-conformance issues for HPS and SPS; and
- During FY 2007, the Integrated Project Team in the Office of the Chief Financial Officer prepared and distributed a solicitation for a system integrator/shared service provider to assist HUD to achieve an integrated financial management system by FY 2012, for full implementation by FY 2013. The Integrated Project Team has identified 16 legacy systems for retirement and/or consolidation and developed a roadmap to support a phased integration of the four core financial systems currently maintained by the Department.

  The OCFO Integrated Procurement Team is on schedule to complete the solicitation in FY 2008.

A complete listing of HUD's 42 financial and mixed financial management systems is shown in Section 4. All systems undergo an annual self-assessment by the system owner, and are subject to an independent review every three years to ensure they remain compliant. At the end of FY 2007, two financial systems, the Small Purchase System (SPS) and the HUD Procurement System (HPS), remain non-compliant. These two systems were identified as non-compliant based on independent compliance reviews as part of the FY 2006 financial statement audit.

Remediation plans for SPS and HPS were developed by the Office of the Chief Procurement Officer (OCPO) during October 2006. The plans fully address financial management systems' compliance and regulatory requirements. Corrective actions to remedy deficiencies in these systems are scheduled into FY 2009, and OCPO is on target to complete the scheduled corrective actions. Accordingly, HUD expects to continue reporting these systems as non-compliant until that time.

FEDERAL INFORMATION SECURITY MANAGEMENT ACT

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

HUD relies extensively on Information Technology to carry out its operations. The agency continues to improve its Information System Security Program. The improvements implemented this year increase HUD's ability to protect the availability, integrity, and confidentiality of information stored on its systems. HUD's noted accomplishments include reviewing and re-categorizing systems' security impact levels, developing specialized training that covered risk assessments, framework security planning and contingency plan testing, and the developing of a new interconnection security agreement template.

Improper Payments Information Act Reporting Details

Please see the narrative on Eliminate Improper Payments under the Improper Payments Information Act reporting detail in Other Accompanying Information located in Section 4.

Section II: Performance Information

How to Use this Section

This section of HUD's FY 2007 Performance and Accountability Report discusses the Department's progress in meeting the annual target set for each performance indicator.[1] The Department's performance indicators reflect short-term progress toward the Department's Strategic Goals and Objectives outlined in the Department's six-year Strategic Plan.[2]

HUD's performance indicators are divided among six strategic objectives and twenty-five strategic goals. The Strategic Framework on page seven shows the organization of these goals and objectives.

Strategic Goals are the highest level of organization. They reflect the major focus areas within the Department's mission and are long-term outcomes. Strategic Objectives, which support each Strategic Goal, provide more specific, shorter-term outcomes. For each Strategic Goal, the following information is provided:

- The **public benefit** from the goal.
- **Resources** contributing to the achievement of the goal.

Strategic Indicators capture the outputs and outcomes of the Department's activities over the course of the fiscal year. Detailed information is included about each of the indicators in the format outlined below:

- **Background** contains indicator impact, justification, origin and program website, where applicable.
- **Results, impact, and analysis** discusses the year's results in the context of prior year trends and includes a forecast for next year's results. This section provides details on accomplishments.
- **Reasons for shortfall/Performance Improvement Plans** are provided for those goals that were not met.
- **Resources and performance link** provides information on the resources supporting the goal.
- **Data discussion** includes information on the data collection system and the method by which data were calculated.
- A **line graph** depicting the data trend over the last four years is included where prior year data are available.

Use of Evaluations to Improve Strategies

Performance indicators face inherent limitations because their focused nature often prevents them from effectively addressing the issue of attribution. That is, performance measures can show results but may not be well suited for showing that the program, rather than external

[1] The Department's FY 2007 Annual Performance Plan is available at http://www.hud.gov/offices/cfo/reports/pdfs/app2007.pdf. Appendix B of HUD's FY 2008 Annual Performance Plan identifies revisions to a limited number of performance indicators or targets; www.hud.gov/offices/cfo/reports/pdf/app2008.pdf
[2] Available at www.hud.gov/offices/cfo/stratplan.cfm

factors, caused the results. In areas where externalities are significant, the most that can be done with performance measures is to plausibly attribute the outcome to the program by demonstrating a logical connection between the efforts and the results of HUD's activities.

To address the attribution problem, the Department also relies on program evaluations. Evaluations are studies that assess program impacts, sometimes by using control groups, random assignment, econometric modeling, and other methodologies to exclude the effects of external forces. Evaluations also support a longer-term assessment of program performance that annual performance measures cannot capture.

The Performance and Accountability Report also continues to include an Appendix that systematically summarizes FY 2007 research efforts and findings.

Summary of HUD's Performance Activities

The following is a summary of HUD's performance activities under each of the Department's six Strategic Goals. This summary provides a short explanation of what the public benefits are, the key activities and measures that HUD is pursuing, and the resource levels and types involved under each goal's major activities.

This summary is designed to give the reader a sense of the overall plan and impact of HUD's program efforts. More specific information for each performance indicator is provided in greater detail following this summary.

In addition, immediately following this summary is a list of the key program indicators and relevant page numbers where they are fully discussed. This list also serves as a quick summary of the Department's key efforts. The reader can locate the entire complement of write-ups in the indicator section of Section 2.

GOAL A: INCREASE HOMEOWNERSHIP OPPORTUNITIES

Homeownership has always been a vital part of the "American Dream." HUD programs and employees are helping more Americans realize that dream, while protecting them from housing discrimination and predatory lending practices.

PUBLIC BENEFIT

Opening doors to homeownership is a core aspect of HUD's mission, originating when Congress created the Federal Housing Administration in 1934. Homeownership allows an individual or family to make an investment for the future. A home is an asset that can grow in value and provide capital to finance future needs of a family, such as college education or retirement. Homeownership helps stabilize neighborhoods, strengthen families and communities, and stimulate economic growth.

RESOURCE INVESTMENT

Although the portion of HUD's budget authority of $3.1 billion for this Goal represents only eight percent of the Department's total budget authority, there are very large mortgage guarantee amounts that provide a significant contribution to the National homeownership rate. The FHA single family program is a major contributor to homeownership with 532,494 mortgages endorsed this fiscal year, of which 79.5 percent were for first-time homebuyers. In addition, the share of first-time minority FHA homebuyers was 33 percent in FY 2007. FHA is an important contributor to the President's goal of adding 5.5 million new minority homeowners over a 10-year period. This goal recognizes the significant, near 25 percent, homeownership gap between minority and non-minority households. Through the third quarter of FY 2007, there has been a net increase of 3.19 million minority homeowners and a gross increase of 3.74 million, representing 58 percent of the goal set by the President. The FHA single family program had an overall commitment ceiling of $185 billion and actual commitments were $84 billion.

The Department has proposed significant reform of the FHA program that will provide substantially expanded help to targeted populations. In August 2007, the Department initiated the FHA "Secure" program that will provide key assistance to a segment of homeowners facing default and foreclosure pressures and is projected to help approximately 240,000 families next year.

HUD's housing counseling program makes a significant contribution to this goal, leveraging non-federal sources of funds to assists approximately one million persons a year (39 percent minorities). This program is particularly important given the current problems in the subprime market and the increased risks of defaults and foreclosures.

Other significant contributions to this goal include the Ginnie Mae, HOME Investment Partnership Program Block Grant, Community Development Block Grants, Self-help Homeownership Opportunity Program, voucher homeownership programs, and HUD's regulation of Fannie Mae and Freddie Mac loan securitization.

- The HOME program assisted 34,985 new homebuyer units, of which the American Dream Downpayment Initiative contributed 6,094 of this total.
- The Community Development Block Grant Program assisted 6,919 homeownership units and 117,830 involving rehabilitation of owner-occupied units.
- Ginnie Mae securitized 93 percent of FHA single family loans; 92 percent of single family fixed rate VA loans; and 26 percent of all single family pools were in Targeted Lending Initiative neighborhoods.
- The Self-help Homeownership Opportunity program assisted 1,887 new homeowner units.
- Fannie Mae and Freddie Mac targets for low- and moderate-income mortgage purchases and for special affordable housing were met.
- Several thousand new homeowners were assisted through HUD's voucher and HOPE VI programs.

GOAL B: PROMOTE DECENT AFFORDABLE HOUSING

PUBLIC BENEFIT

Making quality affordable housing opportunities available to targeted income populations has been a significant goal since the Great Depression. The latest available data show that in calendar year 2005, 2.32 million families with children had worst cases housing needs, and 1.29 million elderly households and 511 thousand households with disabilities also had worst case housing needs. Worst case housing needs reflect rents that are more than 50 percent of available income or housing of poor physical quality. There is a general recognition that there is a lack of affordable housing, with only 76.8 rental units affordable and available for every 100 very low-income renter households and only 67.9 units available when physical conditions are also reflected.

The Department's affordable rental programs serve 4.8 million families on an income targeted basis and prevent large numbers of families from being added to the worst case housing caseload.

RESOURCE INVESTMENT

This Strategic Goal reflects the largest budget authority, at $25.4 billion or 66 percent, of the total $38.3 billion net discretionary Departmental total. The largest portion of affordable housing resources is used to maintain the 2.1 million households tenant-based voucher assistance; 1.3 million project-based assistance and 1.15 million public housing residents (total of 4.55 million Section 8 assisted households). The voucher program budget authority resources total $21.9 billion, of which $15.9 billion is for tenant based vouchers and $6.0 billion is for project based vouchers. An additional $6.3 billion in non-voucher rental support is for public housing, of which $2.4 billion is for the Capital Fund and $3.9 billion for the Operating fund.

Other key contributors to advancing affordable housing are as follows:

- Housing choice voucher utilization increased from 90 percent to 93 percent with projected increases over the next several years.
- The Community Development Block Grant, HOME Investment Partnership block grant, Housing Opportunities for Persons with AIDS, Indian Housing Block Grant and Native Hawaiian Housing Block Grant assisted 141,787 income targeted households with affordable housing.
- FHA endorsed 881 risk sharing multi-family loans.
- Ginnie Mae securitized 98 percent of eligible FHA multifamily mortgages.
- HUD completed 92 percent of Mark-to-Market mortgages restructurings in order to preserve existing affordable housing.
- HUD continued to regulate Fannie Mae and Freddie Mac's performance in meeting HUD-defined targets for special affordable multifamily mortgage insurance (collectively $27 billion).
- Public Housing exceeded the physical quality goal of 85 percent with 85.7 percent. Further improvement is projected in the next several years as part of a total new paradigm based on project-based asset management. Thirty percent of public housing authorities transitioned to asset-based accounting in FY 2007, exceeding the goal of 20 percent.
- HUD continued to work on increasing the proportion of households who transition from HUD's public housing and voucher program and reducing the proportion of households who have very lengthy stays in HUD's housing assistance. Lengthy stays were reduced but the interim target for transitioning households was not met.
- Public Housing also reduced the number of units in "troubled" status by 33 percent.
- The availability of affordable housing for the elderly and persons with disabilities was increased by bringing 245 projects to initial closing, exceeding the goal of 200.

GOAL C: STRENGTHEN COMMUNITIES

PUBLIC BENEFIT

Providing communities throughout the entire Nation with resources and tools to promote economic development and community vitality is a key component of HUD's mission. The hallmark of this effort is flexible program designs that enable localities and States to design local solutions to local problems while targeting the majority of the efforts to low- and moderate-income groups and communities.

Other key contributors to strengthening communities are as follows:

- The share of FHA multifamily properties in underserved communities was 46 percent, exceeding the goal of 33 percent; and 42 percent of single-family mortgages were in underserved communities exceeding the goal of 35 percent.
- The National Community Development Initiative leveraged $1.8 billion with the $29 million in federal resources, a ratio of 63:1. This far exceeds the goal of 10:1.
- Homeless funding of $1.3 billion, or 90 percent of total homeless funding. The program exceeded its target for establishing Homeless Management Information Systems, for housing homeless in HUD permanent housing, and moving homeless from HUD transitional to permanent housing. The goal for attaining employment was exceeded, and HUD achieved 97 percent of the goal of creating 4,000 new permanent housing beds for the chronically homeless.
- Overcrowding in Indian Country was also significantly reduced by more than the one percent target.
- Housing conditions that effect health were vastly improved with targets met for lead abatement and the program on track to meet the aggressive and top priority goal of elimination of lead hazards for children by 2010.
- Expanded efforts and results were also recorded in the $10 million Healthy Homes program focused on reduction of allergen levels and other health and safety conditions.

RESOURCE INVESTMENT

Approximately 12 percent of total net discretionary budget authority is for this goal, or $4.7 billion compared to the total of $38.3 billion. In FY 2006 the total resources were $21.5 billion, a total which reflected the enactment of $16.7 billion of supplemental Community Development Block Grant (CDBG) funding to assist the Gulf Coast communities impacted by Hurricanes Katrina, Wilma, and Rita. The scope of this supplemental funding reflected the need and the effectiveness and flexibility of the CDBG program.

The CDBG program is 54 percent or $2.6 billion of the overall $4.7 billion resources devoted to this strategic goal. Three indicators track the progress in assistance to the Gulf Coast Region including homeowner and infrastructure assistance. CDBG assistance is also tracked in terms of jobs created and percentage that is targeted to low and moderate income groups and, at approximately 95 percent, vastly exceeded the statutory requirement of 70 percent. This Performance and Accountability Report represents the first time that indicators are being reported that begin to capture the outcomes of CDBG on neighborhoods with high unemployment and improved real estate results as well as significant elimination of vacant, boarded up properties that blight neighborhoods.

GOAL D: ENSURE EQUAL OPPORTUNITY IN HOUSING

PUBLIC BENEFIT

Providing our citizens equal opportunity free from discrimination is a value that permeates the the entire policy and program effort of the Department. The Department enforces a body of civil rights and fair housing laws that protect all of our citizens, and both the Fair Housing Assistance Program component and Fair Housing Initiatives Program component have strong enforcement activities as well as education efforts. These initiatives significantly expand homeownership and affordable housing opportunities to all citizens, while strengthening families and communities.

RESOURCE INVESTMENT

The FY 2007 funding for the Fair Housing Equal Opportunity program is $46 million, the same as in FY 2006. The Fair Housing Assistance Program was funded at $25.7 million and performance was measured in terms of reducing aged caseloads by both HUD and efforts of the 109 Fair Housing Equivalent Agencies across the country. The Fair Housing Initiatives Program was funded at $19.8 million and focused on both enforcement activities as well as education and outreach activities. All of these efforts were aided by the continued activities of the Fair Housing Training Academy, which is in the early years of its existence. Education and outreach was accomplished by 1,486 public events that helped reach 247,000 people involved in grassroots and faith based efforts, as well as public service outreach that potentially informed millions of our citizens of their rights and responsibilities. The Fair Housing and Equal Opportunity office also worked with all other HUD program offices to ensure that all HUD programs complied with relevant civil rights and fair housing laws and standards.

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

PUBLIC BENEFIT

The Department has a significant array of housing, community development, fair housing, and related programs that assist families and communities across the entire nation. The Department is the public steward of $38.3 billion, and this strategic goal reports on our efforts to improve management and operational activities in all areas so as to provide even more effective and efficient results. Improvements are particularly focused on developing an enriched, more effective workforce and investing in, and updating, our information technology and financial systems.

The Department has achieved notable successes in the following areas:

- Removal of HUD from the watch list of high-risk government programs by the Government Accountability Office.
- Receipt of a “green” rating for financial performance by OMB.

- Receipt of an unqualified financial audit opinion for the eighth consecutive year.
- Recognition of HUD's leadership in expanding E-government, receipt of an A+ on the Federal Information Security Management Act report
- Reduction of improper payments in full compliance with the Improper Payments Information Act of 2002.

RESOURCE INVESTMENT

This Strategic Goal includes $4.9 billion, or 13 percent of the $38.3 billion, in total discretionary resources. The larger investments include administrative costs for most HUD programs, including $1.8 billion for the rental assistance programs that represent over 60 percent of total HUD resources and Public Housing Operating Resources of $2.4 billion that protect an investment valued at $90 billion.

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

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

For the Office of Policy Development and Research, $6.3 million of data collection and research spending was associated with management and accountability efforts.

This Strategic Goal, in large part, focuses on progress being made with advancing the skills of our workforce through training, recruitment, and retention. The Department is making incremental progress with a multiyear effort to reduce managers and general workforce skill gaps, as well as recruiting new talent for the Department, significantly through several intern programs. The Department has also had significant success in exceeding our 80 percent intern retention goal.

The Department continues to achieve success in the financial area with continued clean audits, elimination of non-compliant financial systems, and the initial contract stage for the overhaul of the Department's core financial systems with a target completion date of FY 2013.

The Department is also accomplishing further progress in our information technology investments and operations with improvement in our Enterprise Architecture program, modernization of our information technology systems, and improved business functions under our Vision 2010 multiyear program for strategic information technology investment. In addition, the Department has successfully moved to electronic grants management for 100 percent of eligible competitive grant programs.

This strategic goal also includes a number of milestone goals, spanning HUD's program areas to gauge whether programs are being operated effectively. These goals include all Community Development and Policy programs, FHA Mutual Mortgage Insurance, PHA related programs, the Departmental Enforcement Center, and Policy Development and Research programs.

The Department is a leader across the government in reducing improper payments, with reduced improper rental payments by 58 percent between 2000 and 2006, resulting in a net overpayment reduction of $1.52 billion.

The Department also periodically examines the satisfaction of both our business partners and our staff with HUD's performance, and uses this information to guide appropriate policy and operational changes.

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

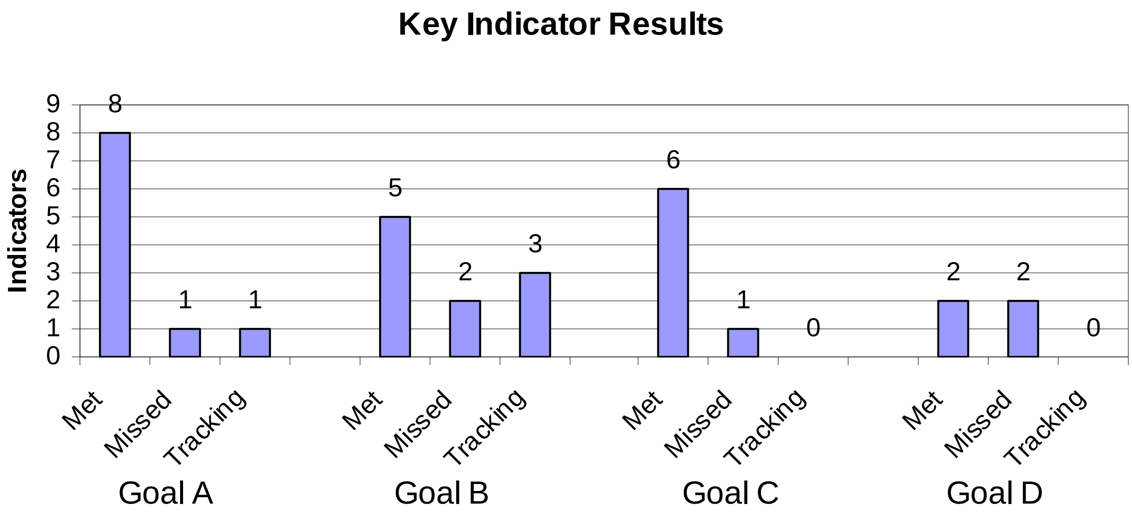
PUBLIC BENEFIT AND RESOURCES

This Strategic Goal is not a resource issue but permeates the funding and operational issues involving all of HUD's programs. The President issued an Executive Order in FY 2004 that created the White House Office of Faith-Based and Community Initiatives and provided that the Department would be one of several leaders in the federal government to increase opportunities for Faith Based and other Community Development Organizations in order to utilize their special talents and skills.

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

Key Indicators

The Department selected a number of key indicators that reflect the Department's programmatic accomplishments. These indicators are listed below with page numbers where detailed information on each can be found.



Key Indicators include:

- A1.3 The number of FHA single family mortgage insurance endorsements nationwide. page 123
- A1.4 The share of first time homebuyers among FHA home-purchase endorsements is 71 percent. page 124
- A1.5 Ginnie Mae securitizes at least 93 percent of eligible single family fixed rate FHA loans. page 125
- A1.6 Ginnie Mae securitizes at least 83 percent of VA single family loans. page 126
- A1.8 At least 30 percent of clients receiving pre-purchase counseling who purchase a home or become mortgage-ready within 90 days. page 127
- A1.9 The number of homebuyers who have been assisted with the HOME Investment Partnerships program is maximized. page 128
- A2.5 The share of first time minority homebuyers among FHA first time home purchase endorsements is 35 percent. page 145
- A2.9 Section 184 mortgage financing of $197.25 million is guaranteed for Native American homeowners during FY 2007. page 150
- A5.1 Increase the cumulative homeownership closings under the homeownership option of the Housing Choice Voucher/Housing Certificate Fund to 8,000 by the end of FY 2007. page 154

- A6.2 More than 80 percent of total mortgagors seeking help with resolving or preventing mortgage delinquency will successfully avoid foreclosure. page 157
- B1.3 The number of rental assisted households and rental housing units with CDBG, HOME, Housing Opportunities for Persons With AIDS, Indian Housing Block Grant and Native Hawaiian Housing Block Grant. page 166
- B1.4 FHA endorses at least 1,000 multifamily mortgages. page 170
- B1.5 Ginnie Mae securitizes at least 95 percent of eligible FHA multifamily mortgages. page 172
- B1.10 Improve the utilization rate of Housing Choice Voucher funding to 97 percent by FY 2011. page 179
- B2.2 The share of public housing units that meet HUD established physical inspection standards will be 85 percent. page 182
- B2.3 The share of assisted and insured privately-owned multifamily properties that meet HUD established physical standards are maintained at no less than 95 percent. page 183
- B2.5 For households living in assisted and insured privately-owned multifamily properties, the share of properties that meets HUD's financial management compliance is maintained at no less than 98 percent. page 186
- B2.6 The percent of public housing units under management of troubled housing agencies. page 188
- B2.7 The proportion of the Housing Choice Voucher Program funding administered by troubled housing agencies. page 189
- B3.1 Increase the availability of affordable housing for the elderly and persons with disabilities by brining 200 projects to initial closing under Sections 202 and 811. page 196
- C2.3 The share of CDBG entitlement funds that benefit low- and moderate-income persons remains at or exceeds 92 percent. page 212
- C3.2 The share of multifamily properties in underserved areas insured by FHA is maintained at 33 percent of initial endorsements. page 222
- C4.3 The percentage of homeless persons who have moved from HUD transitional housing into permanent housing will be at least 61.5 percent. page 232
- C4.5 Create 4,000 new permanent housing beds for chronically homeless persons. page 234
- C5.2 The number of children under the age of six who have elevated blood lead levels will be less than 240,000 in FY 2007. page 240
- C5.3 As part of a 10-year effort to eradicate lead hazards, the Lead Hazard Control Grant programs will make 10,500 units lead safe in FY 2007. page 241
- C5.5 As part of a 10-year effort to eradicate lead hazards, at least 8,800 units will be made lead-safe pursuant to enforcement of the Department's lead safety regulations in FY 2007. page 244

- D1.1 Increase the percentage of fair housing complaints closed in 100 days to 65 percent, excluding recommended cause, pattern and practice, and systemic complaints. page 249
- D1.2 Increase the percentage of Fair Housing Assistance Program complaints closed in 100 days to 53 percent, excluding recommended cause and systemic complaints. page 250
- D2.1 Recipients of Fair Housing Initiatives Program education and outreach grants will hold at least 300 public events, to include outreach to faith-based and grassroots organizations, reaching at least 180,000 people. page 254

RESOURCES SUPPORTING HUD'S MISSION

Summary of Resources By Strategic Goal

Budget Authority (BA) and Salaries and Expenses (S&E) are in thousands of dollars. Full Time Equivalents (FTE) represent the number of paid positions.	2006 Actual	2007 Approp.	2008 Request
Strategic Goal A: Increase Homeownership Opportunities			
Discretionary BA	$3,184,087	$3,119,769	$3,125,948
FTE	1,142	1,189	1,200
S&E Cost	$124,503	$130,065	$138,130
Strategic Goal B: Promote Decent Affordable Housing			
Discretionary BA	$24,449,640	$25,430,726	$24,704,572
FTE	2,948	2,888	2,779
S&E Cost	$317,726	$315,636	$323,972
Strategic Goal C: Strengthen Communities			
Discretionary BA	$21,490,254	$4,734,080	$4,254,608
FTE	795	797	815
S&E Cost	$79,631	$87,505	$94,261
Strategic Goal D: Ensure Equal Opportunity in Housing			
Discretionary BA	$46,040	$46,040	$45,500
FTE	565	559	570
S&E Cost	$60,201	$59,777	$66,319
Strategic Goal E: Embrace High Standards of Ethics, Management, and Accountability			
Discretionary BA	$4,729,209	$4,947,580	$4,983,105
FTE	3,306	3,275	3,508
S&E Cost	$773,491	$846,566	$897,182
Strategic Goal F: Promote Participation of Faith-Based and Community Organizations			
FTE	8	8	8
S&E Cost	$1,725	$1,508	$1,865
Total Resources			
Total BA	$53,899,230	$38,278,195	$37,113,733
FTE	8,764	8,716	8,880
S&E Cost	$1,357,277	$1,441,057	$1,521,729

Fiscal Year 2006 Discretionary BA includes supplemental disaster funding totaling $17,063,300. FTEs and S&E are not included in the Total Resources for the Inspector General's office and the Office of Federal Housing Enterprise Oversight because each has independent budget presentations. S&E and FTEs for the Working Capital Fund are reflected as part of the overall resources.
The FY 2007 Discretionary BA does not reflect proposed rescissions and is net of S&E BA.
The FY 2008 Discretionary BA reflects the proposed $99 million HOPE VI rescission of FY 2007 resources and is net of S&E BA.

Strategic Goal A: Increase Homeownership Opportunities.

Budget Authority (BA) and Salaries and Expenses (S&E) are in thousands of dollars. Full Time Equivalents (FTE) represent the number of paid positions.	2006 Actual	2007 Approp.	2008 Request	2007 vs. 2008
Office of Public and Indian Housing				
Tenant-Based Rental Assistance				
Discretionary BA	$1,580,822	$1,592,000	$1,600,000	$8,000
FTE	79	78	48	-30
S&E Cost	$9,035	$9,058	$6,016	-$3,042
Project-Based Rental Assistance				
Discretionary BA	$20,313	$20,313	$16,671	-$3,642
Native American Housing Block Grants				
Discretionary BA	$280,665	$280,665	$282,134	$1,469
FTE	62	62	61	-1
S&E Cost	$7,080	$7,305	$7,505	$200
Indian Housing Loan Guarantee Fund				
Discretionary BA	$3,960	$6,000	$7,450	$1,450
FTE	24	24	23	-1
S&E Cost	$2,786	$2,862	$2,918	$56
Native Hawaiian Loan Guarantee Fund				
Discretionary BA	$891	$891	$1,044	$153
FTE	1	1	1	0
S&E Cost	$52	$62	$58	-$4
Native Hawaiian Housing Block Grant				
Discretionary BA	$8,727	$8,727	$5,940	-$2,787
FTE	1	1	1	0
S&E Cost	$30	$37	$31	-$6
Revitalization of Severely Distressed Public Housing				
Discretionary BA	$29,700	$29,700	-$29,700	-$59,400
FTE	23	24	23	-1
S&E Cost	$2,659	$2,757	$2,913	$156
PIH TOTAL				
Discretionary BA	$1,925,078	$1,938,296	$1,883,539	-$54,757
FTE	189	189	156	-33
S&E Cost	$21,612	$22,044	$19,410	-$2,634

Budget Authority (BA) and Salaries and Expenses (S&E) are in thousands of dollars. Full Time Equivalents (FTE) represent the number of paid positions.	**2006 Actual**	**2007 Approp.**	**2008 Request**	**2007 vs. 2008**
COMMUNITY PLANNING AND DEVELOPMENT				
Community Development Block Grants				
Discretionary BA	$417,780	$377,199	$303,657	-$73,542
FTE	30	29	28	-1
S&E Cost	$4,481	$3,191	$3,266	$75
HOME Investment Partnership Program				
Discretionary BA	$456,885	$456,885	$511,326	$54,441
FTE	36	37	38	1
S&E Cost	$5,358	$4,067	$4,397	$330
Self-Help Homeownership Opportunity Program				
Discretionary BA	$60,390	$19,800	$39,700	$19,900
FTE	5	5	5	0
S&E Cost	$744	$550	$583	$33
CPD TOTAL				
Discretionary BA	$935,055	$853,884	$854,683	$799
FTE	71	71	71	0
S&E Cost	$10,583	$7,808	$8,246	$438
OFFICE OF HOUSING				
FHA-GI/SRI				
Discretionary BA	$20,184	$20,068	$20,942	$874
FTE	72	70	75	5
S&E Cost	$7,584	$7,424	$8,305	$881
FHA-MMI/CHMI				
Discretionary BA	$276,751	$277,985	$292,393	$14,408
FTE	650	665	679	14
S&E Cost	$66,528	$70,254	$75,143	$4,889
Housing Counseling Assistance				
Discretionary BA	[$31,421]	[$31,715]	$39,381	$39,381
FTE	71	77	89	12
S&E Cost	$7,141	$7,974	$9,817	$1,843
Interstate Land Sales (and RESPA)				
FTE	25	33	43	10
S&E Cost	$3,289	$4,086	$5,547	$1,461
HOUSING TOTAL				
Discretionary BA	$296,935	$298,053	$352,716	$54,663
FTE	818	845	886	41
S&E Cost	$84,542	$89,738	$98,812	$9,074

Budget Authority (BA) and Salaries and Expenses (S&E) are in thousands of dollars. Full Time Equivalents (FTE) represent the number of paid positions.	**2006 Actual**	**2007 Approp.**	**2008 Request**	**2007 vs. 2008**
GNMA				
Mortgage-Backed Securities				
Discretionary BA	$5,297	$8,474	$8,560	$86
FTE	33	54	57	3
S&E Cost	$3,973	$6,518	$7,622	$1,103
OFFICE OF POLICY DEVELOPMENT AND RESEARCH				
Discretionary BA	$21,722	$21,062	$26,450	$5,388
FTE	31	30	30	0
S&E Cost	$3,793	$3,957	$4,040	$83
Total for Strategic Goal A				
Discretionary BA	$3,184,087	$3,119,769	$3,125,948	$6,179
FTE	1,142	1,189	1,200	11
S&E Cost	$124,503	$130,065	$138,130	$8,065
OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT				
FTE	226	256	259	+3
S&E Cost	$60,000	$62,000	$66,000	+$4,000

Strategic Goal B: Promote Decent Affordable Housing.

Budget Authority (BA) and Salaries and Expenses (S&E) are in thousands of dollars. Full Time Equivalents (FTE) represent the number of paid positions.	2006 Actual	2007 Approp.	2008 Request	2007 vs. 2008
OFFICE OF PUBLIC AND INDIAN HOUSING				
Tenant-Based Rental Assistance				
Discretionary BA	$12,646,575	$12,743,000	$12,800,000	$57,000
FTE	553	546	310	-236
S&E Cost	$63,244	$63,408	$42,110	-$21,298
Project-Based Rental Assistance				
Discretionary BA	$162,502	$162,502	$133,370	-$29,132
Native American Housing Block Grants				
Discretionary BA	$280,665	$280,665	$282,134	$1,469
FTE	62	62	61	-1
S&E Cost	$7,080	$7,305	$7,505	$200
Public Housing Operating Fund				
Discretionary BA	$1,426,000	$1,546,000	$1,600,000	$54,000
FTE	54	55	223	168
S&E Cost	$6,152	$6,318	$27,975	$21,657
Public Housing Capital Fund				
Discretionary BA	$2,438,964	$2,438,964	$2,024,000	-$414,964
FTE	352	356	244	-112
S&E Cost	$40,567	$41,559	$30,474	-$11,085
Revitalization of Severely Distressed Public Housing				
Discretionary BA	$69,300	$69,300	-$69,300	-$138,600
FTE	54	55	55	0
S&E Cost	$6,204	$6,433	$6,797	$364
PIH TOTAL				
Discretionary BA	$17,024,006	$17,240,431	$16,770,204	-$470,227
FTE	1,076	1,075	894	-181
S&E Cost	$123,277	$125,060	$114,892	-$10,168

Budget Authority (BA) and Salaries and Expenses (S&E) are in thousands of dollars. Full Time Equivalents (FTE) represent the number of paid positions.	**2006 Actual**	**2007 Approp.**	**2008 Request**	**2007 vs. 2008**
OFFICE OF COMMUNITY PLANNING AND DEVELOPMENT				
Community Development Block Grants				
Discretionary BA	$626,670	$565,785	$455,486	-$110,299
FTE	45	44	43	-1
S&E Cost	$5,501	$4,814	$5,015	$201
HOME Investment Partnerships Program				
Discretionary BA	$1,124,640	$1,124,640	$1,258,650	$134,010
FTE	90	93	93	0
S&E Cost	$10,966	$10,176	$10,823	$647
Housing Opportunities for Persons With AIDS				
Discretionary BA	$231,177	$231,177	$242,481	11,304
FTE	36	37	40	3
S&E Cost	$4,430	$4,045	$4,712	$667
Rural Housing and Economic Development				
Discretionary BA	$16,830	$16,830	0	-$16,830
FTE	15	15	14	-1
S&E Cost	$1,828	$1,641	$1,633	-$8
CPD TOTAL				
Discretionary BA	$1,999,317	$1,938,432	$1,956,617	$18,185
FTE	187	189	190	1
S&E Cost	$22,725	$20,676	$22,183	$1,507
OFFICE OF HOUSING				
Section 202, Housing for the Elderly				
Discretionary BA	$668,265	$668,511	$524,663	-$143,848
FTE	272	263	271	8
S&E Cost	$27,283	$27,050	$29,632	$2,582
Section 811, Housing for the Disabled				
Discretionary BA	$223,270	$222,784	$117,958	-$104,826
FTE	134	129	134	5
S&E Cost	$13,510	$13,303	$14,661	$1,358
FHA-GI/SRI				
Discretionary BA	$216,700	$215,300	$214,722	-$578
FTE	773	751	769	18
S&E Cost	$78,514	$78,437	$84,463	$6,026
FTE	6	6	6	0
S&E Cost	$594	$609	$655	$46

Budget Authority (BA) and Salaries and Expenses (S&E) are in thousands of dollars. Full Time Equivalents (FTE) represent the number of paid positions.	**2006 Actual**	**2007 Approp.**	**2008 Request**	**2007 vs. 2008**
Rent Supplement Program				
Discretionary BA	$7,500	$7,500	$7,900	$400
FTE	5	5	5	0
S&E Cost	$507	$521	$549	$28
Rental Housing Assistance Program (Section 236)				
Discretionary BA	$18,600	$18,600	$19,700	$1,100
FTE	26	26	26	0
S&E Cost	$2,585	$2,655	$2,837	$182
Project-Based Rental Assistance				
Discretionary BA	$4,281,185	$5,116,159	$5,077,959	-$38,200
FTE	358	352	393	41
S&E Cost	$36,011	$36,588	$43,095	$6,507
Housing Counseling Assistance				
Discretionary BA	[$10,179]	[$9,885]	$10,619	$10,619
FTE	23	24	24	0
S&E Cost	$2,319	$2,485	$2,645	$160
HOUSING TOTAL				
Discretionary BA	$5,415,520	$6,248,854	$5,973,521	-$275,333
FTE	1,597	1,556	1,628	72
S&E Cost	$161,323	$161,648	$178,537	$16,889
GINNIE MAE				
Mortgage Backed Securities				
Discretionary BA	$5,297	$2,119	$2,140	$21
FTE	33	13	14	1
S&E Cost	$3,973	$1,630	$1,905	$275
OFFICE OF POLICY DEVELOPMENT AND RESEARCH				
Research and Technology				
Discretionary BA	$5,500	$890	$2,090	$1,200
FTE	55	55	53	-2
S&E Cost	$6,428	$6,622	$6,455	-$167
Total for Strategic Goal B				
Discretionary BA	$24,449,640	$25,430,726	$24,704,572	-$726,154
FTE	2,948	2,888	2,779	-109
S&E Cost	$317,726	$315,636	$323,972	$8,336

Strategic Goal C: Strengthen Communities.

Budget Authority (BA) and Salaries and Expenses (S&E) are in thousands of dollars. Full Time Equivalents (FTE) represent the number of paid positions.	2006 Actual	2007 Approp.	2008 Request	2007 vs. 2008
OFFICE OF COMMUNITY PLANNING AND DEVELOPMENT				
Community Development Block Grants				
Discretionary BA (1)	$19,517,604	$2,568,593	$2,064,868	-$503,725
FTE	205	194	192	-2
S&E Cost	$19,771	$21,246	$22,390	$1,144
Homeless Assistance Grants				
Discretionary BA	$1,189,960	$1,293,115	$1,422,633	$129,518
FTE	244	254	266	12
S&E Cost	$23,566	$27,805	$30,967	$3,162
Housing Opportunities for Persons With AIDS				
Discretionary BA	$37,480	$37,480	$39,313	$1,833
FTE	6	6	7	1
S&E Cost	$569	$660	$764	$104
Brownfields Redevelopment Program				
Discretionary BA	$9,900	$9,900	0	-9,900
FTE	7	7	7	0
S&E Cost	$676	$767	$816	$49
Section 4				
Discretionary BA	0	$29,590	$30,000	$410
FTE	0	3	2	-1
S&E Cost	0	$329	$233	-$96
Community Renewals				
Discretionary BA	0	0	0	0
FTE	18	19	15	-4
S&E Cost	$1,739	$2,081	$1,749	-$332
CPD TOTAL				
Discretionary BA	$20,754,944	$3,938,678	$3,556,814	-$381,864
FTE	480	483	488	5
S&E Cost	$46,321	$52,888	$56,920	$4,032

Budget Authority (BA) and Salaries and Expenses (S&E) are in thousands of dollars. Full Time Equivalents (FTE) represent the number of paid positions.	2006 Actual	2007 Approp.	2008 Request	2007 vs. 2008
OFFICE OF HOUSING				
Section 202, Housing for the Elderly				
Discretionary BA	$66,335	$66,089	$50,337	-$15,752
FTE	27	26	26	0
S&E Cost	$2,722	$2,669	$2,837	$168
Section 811, Housing for the Disabled				
Discretionary BA	$13,330	$13,816	$7,042	-$6,774
FTE	8	8	8	0
S&E Cost	$828	$826	$875	$49
FHA-GI/SRI				
Discretionary BA	$44,293	$44,436	$44,676	$240
FTE	158	155	160	5
S&E Cost	$16,059	$16,055	$17,519	$1,464
FHA-MMI/CHMI				
Discretionary BA	$2,555	$2,508	$2,584	$76
FTE	6	6	6	0
S&E Cost	$843	$664	$674	$10
Manufactured Home Inspection and Monitor Program				
Discretionary BA	$13,000	$12,900	$16,000	$3,100
FTE	11	11	11	0
S&E Cost	$1,228	$1,233	$1,344	$111
Project-Based Rental Assistance				
Discretionary BA	$361,596	$421,509	$372,458	-$49,051
FTE	29	28	28	0
S&E Cost	$2,904	$2,884	$3,060	$176
HOUSING TOTAL				
Discretionary BA	$501,109	$561,258	$493,097	-$68,161
FTE	239	234	239	5
S&E Cost	$24,584	$24,331	$26,309	$1,978
OFFICE OF PUBLIC AND INDIAN HOUSING				
Native American Housing Block Grants				
Discretionary BA	$62,370	$62,370	$62,697	$327
FTE	13	15	12	-3
S&E Cost	$1,574	$1,623	$1,667	$44

Budget Authority (BA) and Salaries and Expenses (S&E) are in thousands of dollars. Full Time Equivalents (FTE) represent the number of paid positions.	2006 Actual	2007 Approp.	2008 Request	2007 vs. 2008
OFFICE OF POLICY DEVELOPMENT AND RESEARCH				
Research and Technology				
Discretionary BA	$21,351	$21,294	$26,000	$4,706
FTE	19	18	18	0
S&E Cost	$2,325	$2,374	$2,424	$50
OFFICE OF FAIR HOUSING AND EQUAL OPPORTUNITY				
Other FHEO Programs				
FTE	NA	5	7	2
S&E Cost	NA	$569	$796	$227
LEAD HAZARD CONTROL				
Discretionary BA	$150,480	$150,480	$116,000	-$34,480
FTE	44	42	51	9
S&E Cost	$4,827	$5,720	$6,145	$425
Total for Strategic Goal C				
Discretionary BA	$21,490,254	$4,734,080	$4,254,608	-$479,472
FTE	795	797	815	18
S&E Cost	$79,631	$87,505	$94,261	$6,756

(1) The amount for fiscal year 2006 Community Development Block Grants discretionary BA includes $16,673,000 in supplemental funding for hurricane disaster recovery.

Strategic Goal D: Ensure Equal Opportunity in Housing.

Budget Authority (BA) and Salaries and Expenses (S&E) are in thousands of dollars. Full Time Equivalents (FTE) represent the number of paid positions.	**2006 Actual**	**2007 Approp.**	**2008 Request**	**2007 vs. 2008**
OFFICE OF POLICY DEVELOPMENT AND RESEARCH				
Research and Technology				
Discretionary BA	$500	$500	$500	0
FTE	2	2	2	0
S&E Cost	$245	$264	$269	$5
FAIR HOUSING AND EQUAL OPPORTUNITY				
Fair Housing Initiatives Program				
Discretionary BA	$19,800	$19,800	$20,180	$380
FTE	23	23	23	0
S&E Cost	$2,435	$2,523	$2,661	$138
Fair Housing Assistance Program				
Discretionary BA	$25,740	$25,740	$24,820	-$920
FTE	25	25	25	0
S&E Cost	$2,630	$2,724	$2,876	$152
Other FHEO Programs				
FTE	515	509	520	11
S&E Cost	$54,891	$54,266	$60,513	$6,247
FHEO TOTAL				
Discretionary BA	$45,540	$45,540	$45,000	-$540
FTE	563	557	568	11
S&E Cost	$59,956	$59,513	$66,050	$6,537
Total for Strategic Goal D				
Discretionary BA	$46,040	$46,040	$45,500	-$540
FTE	565	559	570	11
S&E Cost	$60,201	$59,777	$66,319	$6,542

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

Budget Authority (BA) and Salaries and Expenses (S&E) are in thousands of dollars. Full Time Equivalents (FTE) represent the number of paid positions.	2006 Actual	2007 Approp.	2008 Request	2007 vs. 2008
OFFICE OF PUBLIC AND INDIAN HOUSING				
Tenant-Based Rental Assistance				
Discretionary BA	$1,580,822	$1,592,000	1,600,000	$8,000
FTE	154	153	123	-30
S&E Cost	$18,070	$18,116	$12,031	-$6,085
Project-Based Rental Assistance				
Discretionary BA	$20,313	$20,313	$16,671	-$3,642
Public Housing Operating Fund				
Discretionary BA	$2,138,000	$2,318,000	$2,400,000	$82,000
FTE	79	81	336	255
S&E Cost	$9,228	$9,477	$41,962	$32,485
PIH TOTAL				
Discretionary BA	$3,739,135	$3,930,313	$4,016,671	$86,358
FTE	233	234	459	225
S&E Cost	$27,298	$27,593	$53,993	$26,400
OFFICE OF COMMUNITY PLANNING AND DEVELOPMENT				
Community Development Block Grants				
Discretionary BA	$292,446	$264,033	$212,560	-$51,473
FTE	21	21	20	-1
S&E Cost	$2,276	$2,269	$2,333	$64
HOME Investment Partnerships Program				
Discretionary BA	$175,725	$175,725	$196,664	$20,939
FTE	14	15	15	0
S&E Cost	$1,513	$1,625	$1,691	$66
Homeless Assistance Grants				
Discretionary BA	$136,640	$148,485	$163,357	$14,872
FTE	28	29	30	1
S&E Cost	$3,027	$3,145	$3,556	$411
Housing Opportunities for Persons With AIDS				
Discretionary BA	$17,453	$17,453	$18,306	$853
FTE	3	3	3	0
S&E Cost	$297	$326	$356	$30

Budget Authority (BA) and Salaries and Expenses (S&E) are in thousands of dollars. Full Time Equivalents (FTE) represent the number of paid positions.	2006 Actual	2007 Approp.	2008 Request	2007 vs. 2008
CPD TOTAL				
Discretionary BA	$622,264	$605,696	$590,887	-$14,809
FTE	66	68	68	0
S&E Cost	$7,113	$7,365	$7,935	$570
OFFICE OF HOUSING				
FHA-GI/SRI				
Discretionary BA	$35,322	$36,696	$35,461	-$1,235
FTE	126	128	127	-1
S&E Cost	$13,503	$14,246	$14,224	-22
FHA-MMI/CHMI				
Discretionary BA	$134,118	$132,931	$133,924	$993
FTE	315	318	311	-7
S&E Cost	$34,004	$35,578	$35,303	-$275
Project-Based Rental Assistance				
Discretionary BA	$191,657	$235,603	$196,162	-$39,441
FTE	17	17	16	-1
S&E Cost	$1,753	$1,802	$1,790	-$12
HOUSING TOTAL				
Discretionary BA	$361,097	$405,230	$365,547	-$39,683
FTE	458	463	454	-9
S&E Cost	$49,260	$51,626	$51,317	-$309
OFFICE OF POLICY DEVELOPMENT AND RESEARCH				
Research and Technology				
Discretionary BA	$6,713	$6,341	$10,000	$3,659
FTE	38	37	38	1
S&E Cost	$7,025	$6,950	$7,696	$746
OFFICE OF FAIR HOUSING AND EQUAL OPPORTUNITY				
Other FHEO Programs				
FTE	34	33	34	1
S&E Cost	$3,746	$4,031	$4,031	0
DEPARTMENTAL EQUAL EMPLOYMENT OPPORTUNITY				
FTE	26	26	26	0
S&E Cost	$3,048	$3,069	$3,437	$368
DEPARTMENTAL MANAGEMENT				
FTE	176	170	171	1
S&E Cost	$22,233	$22,203	23,742	$1,539

Budget Authority (BA) and Salaries and Expenses (S&E) are in thousands of dollars. Full Time Equivalents (FTE) represent the number of paid positions.	2006 Actual	2007 Approp.	2008 Request	2007 vs. 2008
CHIEF FINANCIAL OFFICER				
FTE	214	215	211	-4
S&E Cost	$39,211	$39,666	$43,747	$4,081
GENERAL COUNSEL				
FTE	672	652	661	9
S&E Cost	$81,142	$82,497	$86,823	$4,326
ADMINISTRATION AND STAFF SERVICES				
FTE	577	537	604	67
S&E Cost	$250,912	$238,238	$253,493	$15,255
CHIEF PROCUREMENT OFFICER				
FTE	49	114	119	5
S&E Cost	$5,407	$11,940	$13,504	$1,564
FIELD POLICY AND MANAGEMENT				
FTE	455	412	383	-29
S&E Cost	$52,205	$51,754	$47,734	-$10,020
WORKING CAPITAL FUND				
FTE	308	314	280	-34
S&E Cost	$224,891	$299,634	$299,730	$96
Total for Strategic Goal E				
Discretionary BA	$4,729,209	$4,947,580	$4,983,105	$35,525
FTE	3,306	3,275	3,508	233
S&E Cost	$773,491	$846,566	$897,182	$50,616
OFFICE OF INSPECTOR GENERAL				
FTE	646	634	650	+16
S&E Cost	$113,940	$105,600	$112,000	+$6,400

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

Budget Authority (BA) and Salaries and Expenses (S&E) are in thousands of dollars. Full Time Equivalents (FTE) represent the number of paid positions.	2006 Actual	2007 Approp.	2008 Request	2007 vs. 2008
CENTER FOR FAITH-BASED AND COMMUNITY INITIATIVES				
FTE	8	8	8	0
S&E Cost	$1,725	$1,508	$1,865	$357
Total for Strategic Goal F				
FTE	8	8	8	0
S&E Cost	$1,725	$1,508	$1,865	$357

Goal A: Increase Homeownership Opportunities

Strategic Objectives:

A1 **Expand national homeownership opportunities.**

A2 **Increase minority homeownership.**

A3 **Make the homebuying process less complicated and less expensive**

A4 **Fight practices that permit predatory lending.**

A5 **Help HUD-assisted renters become homeowners.**

A6 **Keep existing homeowners from losing their homes.**

PERFORMANCE REPORT CARD – GOAL A

	Performance Indicators	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2007 Target	Met	Notes
A1	**Expand national homeownership opportunities.**							
A1.1	Improve national homeownership opportunities.	69.0%	68.8%	69.0%	68.2%	N/A	N/A	c,d
A1.2	The share of all homebuyers who are first-time homebuyers.	N/A	38.1%	N/A	N/A	N/A	N/A	c,e
A1.3	The number of FHA single family mortgage insurance endorsements nationwide.	997	556	502	532	N/A	N/A	c,j
A1.4	The share of first time homebuyers among FHA home-purchase endorsements is 71 percent.	72.8%	79.3%	79.3%	79.5%	71.0%	✓	
A1.5	Ginnie Mae securitizes at least 93 percent of eligible single family fixed rate FHA loans.	87.3%	92.7%	91.4%	93%	93%	✓	
A1.6	Ginnie Mae securitizes at least 83 percent of VA single family loans				92%	83%	✓	
A1.7	At least 28 percent of all Ginnie Mae single family pools issued in FY 2007 are Targeted Lending Initiative Pools.	16.3%	25.9%	26.3%	26%	28%	✗	
A1.8	At least 30 percent of clients receiving pre-purchase counseling will purchase a home or become mortgage-ready within 90 days.	42.0%	37.1%	42.7%	53%	30%	✓	d
A1.9	The number of homebuyers who have been assisted with the HOME Investment Partnerships program is maximized.	30,780	32,307	55,652	34,985	30,221	✓	
A1.10	The share of FHA-insurable real-estate-owned properties that are sold to owner-occupants is 90 percent.	98.4%	85.1%	89.8%	93%	90%	✓	

PERFORMANCE REPORT CARD – GOAL A

	Performance Indicators	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2007 Target	Met	Notes
A1.11	HUD will continue to monitor and enforce Fannie Mae's and Freddie Mac's performance in meeting or surpassing HUD-defined targets for low- and-moderate income mortgage purchases.							
	Fannie Mae	52.3%	53.4%	55.1%	56.9%	53%	✓	f
	Freddie Mac	51.2%	52.5%	54.0%	55.9%	53%	✓	f
A1.12	The number of households receiving homeownership assistance and homeowners receiving housing rehabilitation assistance from the Community Development Block Grant, the Indian Housing Block Grant, and the Native Hawaiian Housing Block Grant.	121,763	139,115	145,530	129,614	140,414	✗	
A1.13	The number of homeowners who have used sweat equity to earn assistance with Self-help Homeownership Opportunity Program funding reaches 1,500.	1,735	2,277	1,868	1,887	1,500	✓	m
A1.14	The Self-help Homeownership Opportunity Program will maintain a default rate that is lower than that under the comparable US Department of Agriculture 502 loan program.			1.40%	1.15%	3.23%	✓	
A1.15	Create net household equity of $37.5 million through the Self-help Homeownership Opportunity Program.	$38.4	$54.3	$54.3	$53.4	$37.5	✓	k
A1.16	Through the HOPE VI Community and Supportive Services program, 133 public housing residents will become homeowners.				394	133	✓	m
A1.17	The HOPE VI program will create 800 new homeownership units.	1,239	1,284	718	1,841	800	✓	m
A2	**Increase minority homeownership.**							
A2.1	The homeownership rate among targeted households.							
	Homeownership among minority households	50.9%	51.2%	51.7%	51.0%	N/A	N/A	c,d
	Households with income less than median family income	52.7%	52.8%	53.0%	53.0%	N//A	N/A	c,d
	Homeownership among central city households	53.2%	54.0%	54.6%	53.5%	N/A	N/A	c,d
A2.2	Increase the number of minority homeowners by 5.5 million between 2002 and 2010.				3.19	N/A	N/A	c,d,k
A2.3	The gap in homeownership rates of minority and non-minority households.	25.0%	24.6%	24.6%	24.3%	N/A	N/A	c,d
A2.4	The mortgage disapproval rates of minority applicants.	15.4%	16.5%	18.4%	22.0%	N/A	N/A	c
A2.5	The share of first time minority homebuyers among FHA first time home purchase endorsements is 35 percent.	37.2%	34.4%	31.7%	33%	35%	✗	

PERFORMANCE REPORT CARD – GOAL A

	Performance Indicators	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2007 Target	Met	Notes
A2.6	HUD will continue to monitor and enforce Fannie Mae's and Freddie Mac's performance in meeting or surpassing HUD-defined targets for mortgages financing special affordable housing.							
	Fannie Mae	21.2%	23.6%	26.3%	27.8%	23.0%	✔	f
	Freddie Mac	21.4%	23.0%	24.3%	26.4%	23.0%	✔	f
A2.7	Minority clients are at least 50 percent of total clients receiving HUD-funded housing counseling in FY 2007.	49.6%	58.4%	47.3%	42.7%	50.0%	✘	d
A2.8	Section 184A mortgage financing of $12.8 million is guaranteed for Native Hawaiian homeowners during FY 2007.	N/A	$1.7	$0.2	$0	$12.8	✘	k
A2.9	Section 184 mortgage financing of $197.25 million is guaranteed for Native American homeowners during FY 2007.	$62.3	$76.8	$172.2	$223.9	$197.3	✔	k
A3	**Make the homebuying process less complicated and less expensive**							
A3.1	Respond to 3,000 inquiries and complaints from consumers and industry regarding the Real Estate Settlement Procedures Act and the homebuying and mortgage loan process.	1,244	1,245	1,355	6,622	3,000	✔	
A4	**Fight practices that permit predatory lending.**							
A4.1	FHA increases the percentage of at-risk loans that substantively comply with FHA program requirements.	88%	90%	95%	96.8%	85%	✔	
A5	**Help HUD-assisted renters become homeowners.**							
A5.1	Increase the cumulative homeownership closings under the homeownership option of the Housing Choice Voucher, Family Self-Sufficiency, and Moving to Work programs to 8,000 by the end of FY 2007.	2,052	5,121	7,528	10,429	8,000	✔	
A5.2	HUD works to expand public housing agencies' use of the Section 32 homeownership program, resulting in the submission of 12 proposals in FY 2007	N/A	N/A	16	27	12	✔	
A6	**Keep existing homeowners from losing their homes.**							
A6.1	Loss mitigation claims are 55 percent of total claims on FHA-insured single family mortgages.	54.2%	59.1%	61.0%	64.6%	55.0%	✔	
A6.2	More than 80 percent of total mortgagors seeking help with resolving or preventing mortgage delinquency will successfully avoid foreclosure.	90.8%	96.7%%	92.5%	94.7%	80.0%	✔	d

Notes:

- a Data not available.
- b No performance goal for this fiscal year.
- c Tracking indicator.
- d Third quarter of calendar year (last quarter of fiscal year; not the entire fiscal year).
- e Calendar year beginning during the fiscal year shown.
- f Calendar year ending during the fiscal year shown.

g	Result too complex to summarize. See indicator.
h	Baseline newly established.
i	Result is estimated.
j	Number is in thousands.
k	Number reported in millions.
l	Number reported in billions.
m	For one year period ending June 30, 2007

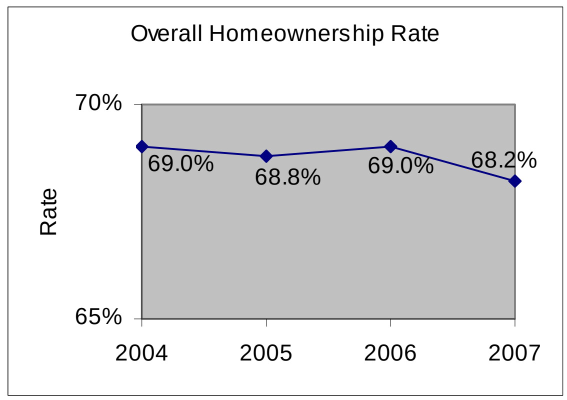
A1 Expand national homeownership opportunities.

A1.1: Improve national homeownership opportunities.

Background. The overall homeownership rate represents the share of the nation's households that have achieved the "American dream" outcome—homeownership. Providing expanded opportunities for homeownership to all Americans is a key component of HUD's mission. Emphasis is placed on minority families and other disadvantaged groups, as a Presidential priority recognizing the large unmet needs for these groups. Homeownership is recognized for building wealth and encouraging commitment to communities and good citizenship. A significant number of HUD's programs support increases in the homeownership rate. However, as in past years, a performance target was not established for this tracking indicator because of the substantial limits in HUD's span of control relative to economic factors.

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

Results, impact, and analysis. The national homeownership rate for all households in the third quarter of calendar year 2007 was 68.2 percent, down 0.8 percentage points from the same quarter in 2006. The decline, which is broadly based across diverse market segments, reflects the softening market for existing and new homes. Adjustable rate mortgages are beginning to reset at higher interest rates, thus forcing a number of recent homebuyers to sell or default, especially when soft home prices and tighter credit requirements can make plans for refinancing more difficult.



The median price of a new home sold in September 2007, at $238,000, was up 5.0 percent from a year earlier. The median price of an existing home sold in September, at $211,700, was down 4.2 percent from September 2006, in part due to a 16.3 percent increase in the number of existing homes for sale. The composite housing affordability index worsened by 4.0 percent in July 2007 compared with a year earlier, reflecting a smaller cushion between the median family income and the qualifying income for purchasing the median-priced home.

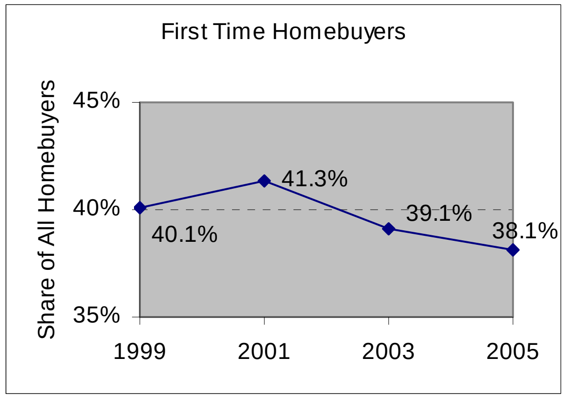
Resources and performance link. Each 0.1 percentage point increase in the national homeownership rate translates to about 100,000 new homeowners (if total households remain constant). Such results are well within the scope of HUD program impacts reported through a number of performance indicators. For example, FHA insured over 532,000 single family mortgages in FY 2007, of which 79.5 percent were to first-time homebuyers (see indicator A1.4). Proposed legislation to modernize FHA will allow greater assist low- and moderate-income borrowers as well as many with financially troubled mortgages and further influence the national homeownership rate.

Data discussion. The measure is based on averages of monthly Current Population Survey data for the third quarter (the last quarter of the fiscal year). The Current Population Survey data are free of limitations affecting the measure's reliability. Changes in estimated rates that exceed 0.25 percentage point are statistically significant with 90 percent confidence.

A1.2: The share of all homebuyers who are first time homebuyers.

Background. Sustaining the rate of first time home purchases among homebuyers is a key to increasing homeownership rates. As in past years, this is a tracking indicator with no numeric target reflecting the dominant impact of the macro-economy compared with HUD's limited control over the outcome.

Results, impact, and analysis. The most recent available data show that during calendar year 2005, 38.1 percent of homebuyers were first time homebuyers. This reflects a decrease of 1.0 percentage point from the proportion observed in 2003, and a further decline from 2001 results.



The outcome is consistent with the rapid home price appreciation and resulting deterioration of affordability observed during the 2001–2005 period. The composite affordability index declined from 128.1 in 2001 to 114.6 in 2005, even while mortgage interest rates bottomed out in mid-2005. The decline in the index implies a smaller cushion between the median family income and the qualifying income needed to purchase the median-priced home. More recently, the index fell substantially more, to 103.6 as of July 2007.

Resources and performance link. HUD programs continue to play an important role in mitigating the difficulties of purchasing a first home. Homeownership vouchers and the American Dream Downpayment Initiative, in particular, help households overcome their lack of savings for a down payment. In FY 2007, FHA endorsed 532,494 single family mortgages for insurance, and the value of FHA's single-family programs to the national economy was brought into sharper focus by the escalating delinquencies of borrowers who sought riskier mortgage products and changes in FHA policies that can assist many of their borrowers. In addition, proposed legislation to modernize FHA will allow expanded assistance to low and moderate-income borrowers. The FHA insurance programs are measured in terms of insurance in force rather than program budget authority. In FY 2007, the Mutual Mortgage Insurance Fund endorsed approximately $84 billion of mortgages.

Data discussion. This measure uses data from the biennial American Housing Survey. Calendar year 2007 data will be published during 2008. The data represent homeowners who reported, during the (odd) years shown, that they moved during the previous (even) years. This offset allows the data to represent a complete year and avoids seasonal distortions, because odd-year homebuyers who moved after they were surveyed would not be represented. Information on first-time status was missing for 4.4 percent of homebuyers surveyed in 2003, so those households are excluded. During 2002, HUD contractors completed a study that verified and validated the American Housing Survey for purposes of mortgage market and housing finance analysis. Researchers assessed the replicability, internal consistency, and reliability of AHS estimates and found the data generally reliable.

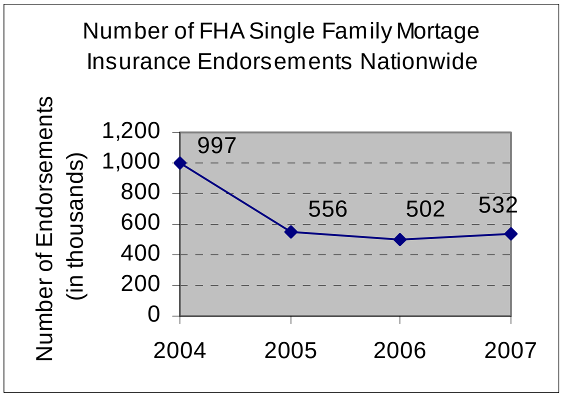
A1.3: The number of FHA single-family mortgage insurance endorsements nationwide.

Background. This is a tracking indicator. FHA insures mortgages issued by private lenders, increasing access to mortgage capital to increase homeownership opportunities. This indicator tracks FHA's contribution to the homeownership rate through the annual volume of FHA-insured single family mortgage loans. It is a key component of the Department's priority outcome of improving the national homeownership rate and fulfilling the President's and Secretary's commitment to create 5.5 million new minority homeowners by 2010. This indicator has important implications for first-time and minority homeownership in addition to overall homeownership because a significant proportion of FHA participants are first time minority homeowners (see indicators A1.4 and A2.5).

While the number of FHA single family mortgage endorsements is a key measure of HUD's contribution to homeownership, the actual endorsement rates are achieved during FY 2007 continued to be affected by market forces outside of HUD's control. Balancing the importance of reporting this key measure of HUD's activity with an appreciation of the substantial role of the market in the final result, the Department decided to track the number of endorsements, but not establish a numeric goal for FY 2007.

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

Results, impact, and analysis. During FY 2007, FHA endorsed 532,494 single family mortgages for insurance. Although no goal had been established for FY 2007, this result represents a six percent increase from the level of endorsement activity that took place during FY 2006 (502,049 mortgage insurance endorsements). The increase in single family endorsement levels from FY 2006 to FY 2007 was largely attributable to increasing mortgage interest rates and collapse of the subprime lending market and reverse mortgage activity. FHA also focused its efforts on process improvements in order to make the program more compatible with the rest of the industry. These changes have been well received by lenders and real estate professionals, and as a result, more low- and moderate-income homebuyers are benefiting from FHA financing. FHA modernization legislation has been approved by the House of Representatives and is awaiting full Senate approval. Passage of this legislation will reduce statutory barriers and increase FHA's flexibility to respond to changes in the marketplace. As a result, FHA will be able to reach more prospective homebuyers to provide an alternative to subprime loans with high interest rates and closing costs, as well as expensive repayment penalties.



Resources and performance link. FHA and the Office of Single Family Housing administer the 203(b), 234(c) and Home Equity Conversion Mortgage loan products without receiving an appropriation from Congress. In FY 2007, FHA increased the number of endorsements from the previous fiscal year, reversing a trend that had seen endorsement total decrease in previous years. This trend is likely to continue, particularly if FHA Modernization is approved.

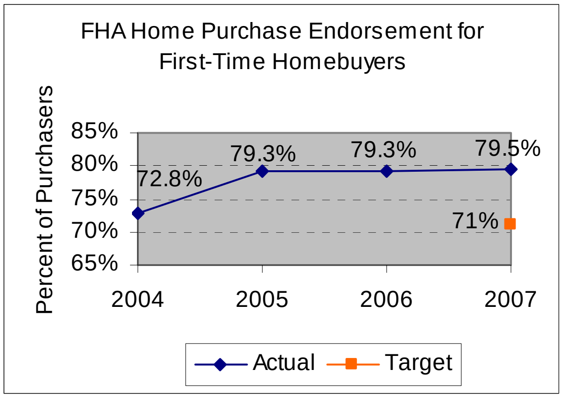
Data discussion. Data for this indicator are drawn from FHA's Single Family Data Warehouse, based on the Computerized Homes Underwriting Management System (CHUMS). There are no data deficiencies affecting this measure. Direct-endorsement lenders enter FHA data into the Computerized Homes Underwriting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

A1.4: The share of first-time homebuyers among FHA home purchase endorsements is 71 percent.

Background. FHA is a major source of mortgage financing for first time buyers as well as for minority and lower income buyers. To help increase the number of families able to secure financing for their first home, FHA established a target of 71 percent for its Homeownership Centers for single family home purchase mortgage endorsements to first-time homebuyers. In FY 2007, 79.5 percent of FHA-insured single family home purchase mortgages were to first-time homebuyers, compared with the target of 71 percent and the 79.3 percent achieved in FY 2006. The consistency in the share of home purchase mortgages endorsed to first-time homebuyers for FY 2007 (79.5 percent) may be attributable to FHA's continued commitment to reaching first-time homebuyers. This indicator tracks the share of first time homebuyers among FHA endorsements for home purchases – thus excluding loans made for home improvements.

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

Results, impact, and analysis. During FY 2007, 79.5 percent of home purchase endorsements were made to first time homebuyers, exceeding the FY 2007 goal of 71 percent. FHA continues to concentrate business efforts towards first time homebuyers, enabling FHA to meet this goal. FHA will continue its efforts to reach prospective first time homebuyers through participation in conferences, seminars, outreach events, and by working with other organizations within HUD to support the use of Community Development and HOME Investment Partnerships block grant funding for homeownership activities.



Resources and performance link. In FY 2007, the share of endorsements to first-time homebuyers continued to trend upwards. This is indicative of HUD's commitment to assist people towards achieving the dream of homeownership. The FHA insurance programs are measured in terms of insurance in force rather than program budget authority. In FY 2007, the Mutual Mortgage Insurance Fund endorsed approximately $84 billion of mortgages.

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

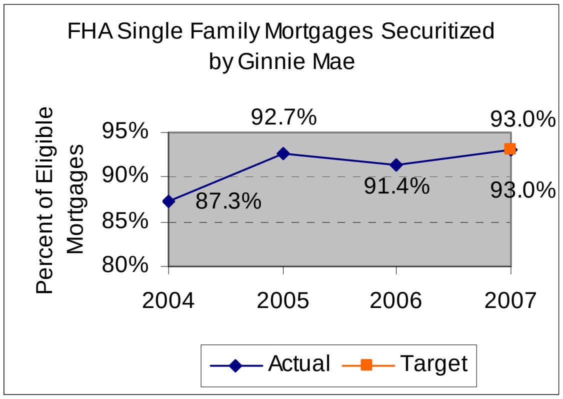
A1.5: Ginnie Mae securitizes at least 93 percent of eligible single-family fixed rate FHA loans.

Background. This indicator measures Ginnie Mae's share of the residential mortgage loans insured or guaranteed by the Federal Housing Administration. As articulated in Title III of the National Housing Act, Ginnie Mae's purpose is "to establish secondary market facilities for residential mortgages, to provide that the operations thereof shall be financed by private capital to the maximum extent feasible", and to conduct certain other secondary market functions consistent with this purpose. Ginnie Mae was authorized to guarantee securities backed by government guaranteed or insured loans when it was established as a government corporation on September 1, 1968. Since 1970, when it pioneered the mortgage-backed pass-through security, Ginnie Mae has guaranteed over $2.6 trillion in securities.

Ginnie Mae continues to address the specific need of promoting liquidity and the flow of investment capital for FHA mortgages. The total amount of Ginnie Mae securities outstanding have increased every month since mid-2006. At the end of FY 2007, the amount of Ginnie Mae securities outstanding was approximately $427.6 billion, of which single-family program securities were $389.1 billion.

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

Results, impact, and analysis. The target of 93 percent was met. As of the end of FY 2007, Ginnie Mae securitized 93 percent of eligible single-family fixed rate FHA loans. This result is a 1.6 percentage point increase over last year's result of 91.4 percent. Single-family securities outstanding increased from $372 billion in FY 2006 to $389.1 billion in FY 2007.



Ginnie Mae was able to meet its goal by guaranteeing securities that provide the best execution from a pricing standpoint. Also important were Ginnie Mae's continued success in reducing issuers' back-end processing costs and improving security disclosures.

Resources and performance link. Commitment Authority is used by Ginnie Mae to guarantee securities backed by government guaranteed or insured loans. In FY 2007, Ginnie Mae commitment authority was $200 billion in new commitment authority and $200 billion commitment authority carried forward from FY 2006. In FY 2007, Ginnie Mae approved $99.8 billion of this commitment authority, and issued $85.1 billion in securities. Of the $99.8 billion in commitment authority approved, $95.7 billion was used and $81.3 billion in securities were issued in the single-family program.

Data discussion. Data for this indicator are based on FHA-insured loan level data of monthly endorsements collected by Ginnie Mae in its Mortgage-Backed Security Information System (MBSIS). The data that populate Ginnie Mae's MBSIS reflect the most recent data of insured or guaranteed loans. The Office of Inspector General oversees Ginnie Mae's annual financial statements audit, which includes auditing Ginnie Mae's data systems each year; Ginnie Mae has consistently received an unqualified, or clean opinion in prior fiscal years, and again received a clean opinion for the FY 2007 audit.

A1.6: Ginnie Mae securitizes at least 83 percent of VA single-family fixed rate loans.

Background. This indicator measures Ginnie Mae's share of the residential mortgage loans guaranteed by the Department of Veterans Affairs (VA). By supporting an efficient secondary market for these loans, Ginnie Mae helps to increase the availability and improve the pricing of mortgage credit for veterans and their families.

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

Results, impact, and analysis. The target goal of 83 percent was exceeded. As of the end of FY 2007, Ginnie Mae securitized 92 percent of eligible single-family fixed rate VA loans. This result is nine percentage points above the target of 83 percent. Ginnie Mae was able to meet its goal by guaranteeing securities that provide the best execution from a pricing standpoint. Also important was Ginnie Mae's continued success in reducing issuers' back-end processing costs and improving security disclosures.

Resources and performance link. This goal was implemented in FY 2007, and it accounts for approximately one third of Ginnie Mae's portfolio. Funding provided through Commitment Authority is used by Ginnie Mae to guarantee securities backed by government guaranteed or insured loans.

Data discussion. Data for this indicator are based on monthly loan level data from the VA and collected by Ginnie Mae in its Mortgage-Backed Security Information System (MBSIS). The data that populate Ginnie Mae's MBSIS reflect the most recent data of insured or guaranteed loans. The Office of Inspector General oversees Ginnie Mae's annual financial statements audit, which includes auditing Ginnie Mae's data systems each year; Ginnie Mae has consistently received an unqualified, or clean, opinion in prior fiscal years, and again received a clean opinion for the FY 2007 audit.

A1.7: At least 28 percent of all Ginnie Mae single family pools issued in FY 2007 are Targeted Lending Initiative pools.

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

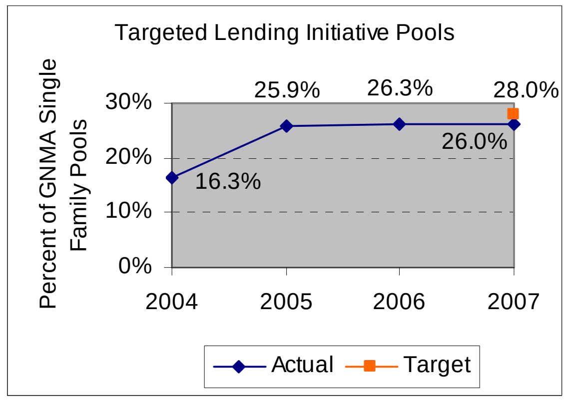
The Targeted Lending Initiative program offers discounts ranging from one to three basis points on Ginnie Mae's six basis point guaranty fee, depending on the percentage of Targeted Lending Initiative-eligible loans within the security. The reduced guaranty fee gives lenders an incentive to originate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

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

Results, impact, and analysis. The target was not met. As of the end of FY 2007, 26 percent of all single-family pools issued received Targeted Lending Initiative credit. This result is two percentage points below the target of 28 percent.

Resources and performance link. This goal was implemented in FY 2007. Funding provided through Commitment Authority is used by Ginnie Mae to guarantee securities backed by government guaranteed or insured loans.

Reasons for shortfall/Plans and schedule to meet the goal. In FY 2007, fewer issuers formed Targeted Lending Initiative pools than in FY 2006. This may be due, in part, to the market difficulties faced by many in the mortgage industry, particularly during the second half of the year. Ginnie Mae plans to contact its issuers in FY 2008, particularly any previously active Targeted Lending Initiative issuers who were not active in FY 2007, to encourage participation in the initiative.



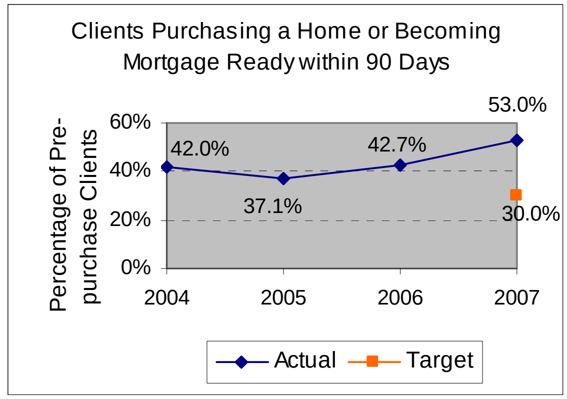
Data discussion. Monthly Master Pool files detailing characteristics of pools securitized by Ginnie Mae. No data limitations are known to affect this indicator. Ginnie Mae and FHA commitment authority is subject to annual financial audits because they represent an obligation on the part of the United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

A1.8: At least 30 percent of clients receiving pre-purchase counseling will purchase a home or become mortgage-ready within 90 days.

Background. The Department continues to emphasize the critical role of counseling in the home buying process. Clients tracked through this indicator include those receiving housing counseling for pre-purchase reasons, including clients who are preparing to purchase a home or working to become mortgage-ready. The FY 2007 goal is to ensure that at least 30 percent of clients receiving pre-purchase counseling achieve the outcome goal of purchasing a home or becoming mortgage-ready within 90 days. Depending on the state of the economy and the housing market, demand for various types of counseling rises and falls, and may vary for reasons outside of HUD’s control. The Department is confident, however, that HUD approved agencies are providing quality counseling services that will help clients resolve their housing problems regardless of how many clients are served in a given year. As a result, HUD revised this indicator to focus on outcomes associated with clients receiving pre-purchase counseling rather than the number of clients served.

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

Results, impact, and analysis. Although final results are not yet available, reporting results from the first three quarters of calendar year 2007 indicate 23,770 clients out of 44,823 receiving pre-purchase counseling from HUD approved agencies purchased a home or become mortgage-ready within 90 days. The calendar year 2007 third quarter results of 53 percent would exceed the FY 2007 goal of 30 percent. With increased training and outreach and continuous efforts to improve efficiency and effectiveness there is no reason to anticipate a decrease in program performance in calendar year 2007 fourth quarter reporting. The final housing counseling activity data needed to report this measure will become available early in FY 2008. HUD approved housing counseling agencies are given 90 days following the end of a calendar year to report the results of counseling activity for that fiscal year and to submit requests to HUD for reimbursement for counseling services provided.



Resources and performance link. FHA and the Office of Single Family Housing sponsor 2,300 approved housing counseling agencies throughout the country that can provide advice on buying a home, renting, defaults, foreclosures, credit issues and reverse mortgages to clients at a low or minimal cost. Funding in FY 2007 of $41.6 million was provided to 2,300 approved housing counseling agencies to provide counseling services. Funding has continually increased in recent years. In the wake of the sub prime market collapse and record setting foreclosures, the housing market is as complex and dynamic as ever. People more than ever need housing counseling services to appropriately resolve housing situations and have a trusted source whom they can approach with housing related questions.

Data discussion. HUD collects data on clients receiving pre-purchase counseling through the Housing Counseling System (HCS – F11). The data include the total number of clients, the type of counseling they received, and the results of the counseling. An independent assessment in 2005 showed that the Housing Counseling System performance indicator data passed six-sigma quality tests for validity, completeness, and consistency. A major limitation of the data collection instrument is that it does not differentiate the level of counseling given to each client. The quality and level of counseling may vary significantly. To improve the quality of housing counseling information that is used by HUD, the Department implemented a new automated data collection instrument that will enable it to collect client-level data beginning in FY 2008.

A1.9: The number of homebuyers who have been assisted with the HOME Investment Partnerships program is maximized.

Background. The output tracked by this indicator shows the potential contribution to be made by the HOME Investment Partnerships program and the American Dream Downpayment Initiative toward increasing the national homeownership rate and the number of minority homeowners, two key Presidential and Secretarial priorities. The HOME Investment Partnerships program gives states and local communities the flexibility to meet their housing needs in a variety of ways. Many participating jurisdictions choose to use their funds to promote homeownership, both by helping low-income families to purchase homes and by rehabilitating existing owner-occupied units, reducing the possibility that these homeowners could lose their homes.

The American Dream Downpayment Initiative component of the HOME Investment Partnerships program provides downpayment assistance to expand homeownership.

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

Results, impact, and analysis. During FY 2007, the goal was met as participating jurisdictions used HOME funds to complete 34,985 new homebuyer units and/or directly assist homebuyer households, exceeding the goal of 30,221 by 15.7 percent. The American Dream Downpayment Initiative component contributed 6,094 homebuyer units, which is approximately 22 percent more than the target.

While these results reflect a reduction of 20,667 units completed from the historic high of 55,652 households assisted in FY 2006, it represents an eight percent increase from the FY 2005 level of 32,307 units. FY 2006 production levels were much higher than normal as a result of grantees improved performance report.

The number of minority households assisted met 87 percent of the FY 2007 goal of 14,506 households, with 12,691 minority households becoming homeowners through HOME assistance in FY 2007.

HOUSEHOLDS ASSISTED THROUGH HOME	FY 2004	FY 2005	FY 2006	FY 2007 actual	FY 2007 goal
New Homebuyers, not Downpayment Initiative	28,517	23,413	46,556	28,891	25,221
New Homebuyers, Downpayment Initiative	2,263	8,894	9,096	6,094	5,000
Minority Homebuyers Assisted	14,774	15,507	25,622	12,691	14,506
Existing-homeowner rehabilitation	10,112	14,832	16,821	11,221	8,943

Participating jurisdictions disbursed a total of $468.7 million on homebuyer units completed during FY 2007. The per-unit HOME cost of providing a homebuyer unit ($11,478) increased compared to FY 2006 by $419 or 3.7 percent

Also, during FY 2007, participating jurisdictions used HOME funds to complete 11,221 existing homeowner rehabilitation units. This exceeds the FY 2007 goal of 8,943 units by 25 percent or 2,278 units. It also represents a reduction of 5,600 units completed compared to the FY 2006 level of 16,821 units.

The FY 2007 goals for new homebuyers assisted and existing homeowner rehabilitation were exceeded due to the continued efforts by HUD Headquarters and field offices to improve the performance reporting of participating jurisdictions by working directly with participating jurisdictions that were shown to be lagging in performance or the reporting of their performance to HUD. At least ten on-site one-on-one trainings were conducted with HOME participating jurisdictions and field offices.

HUD issues monthly production reports and a quarterly HOME Program Performance SNAPSHOT to identify these poorly performing participating jurisdictions. The SNAPSHOT compares the performance of HOME participating jurisdictions to each other for eight factors and assigns a performance ranking. The SNAPSHOT has succeeded in focusing attention on production and the completion of units. The "Open Activities Report," as the name indicates, directs participating jurisdictions to their open activities and assists them in completing them. The HOME *Dashboard* is directed at state and local elected officials and is intended to focus their attention on the use of HOME funds in the production of affordable housing in their jurisdictions. The HOME *Vacant Units Report* was published during the third quarter of FY 2007. This report identifies the HOME units marked as vacant, so that the participating jurisdictions can update occupancy data of these units as needed.

The accomplishment of this output indicator is affected by several external factors: the level of annual HOME and American Dream Downpayment Initiative appropriations, the number of new, and inexperienced, participating jurisdictions entering the program, the choices that participating jurisdictions make among their competing housing needs, fiscal conditions affecting State and local government program staffing levels, and general economic conditions affecting the cost and availability of housing and the income levels of potential homebuyers.

Resources and performance link. The FY 2007 goals within this indicator reflect a decrease or leveling off from the FY 2006 levels due to the effects of inflation on housing production – calculated at three percent annually – together with the reduction in HOME Investment Partnerships program funding in recent years.

The FY 2007 Annual Performance Plan goal for the American Dream Downpayment Initiative is lower than previous years due to the steady decrease in funding since its inception.

Data discussion. Data for the HOME Investment Partnerships program are reported in HUD's Integrated Disbursement and Information System. For FY 2007 participating jurisdictions were required to enter the outcome performance measures data into HUD's Integrated Disbursement and Information System. Data entered by participating jurisdictions are used to track quarterly performance.

A1.10: The share of FHA-insurable real estate owned (REO) properties that are sold to owner-occupants is 90 percent.

Background. Real estate owned properties are homes acquired by HUD as a result of mortgage foreclosures and insurance claim conveyance payments made to lenders. The real estate owned properties held in HUD's inventory are Department assets and provide a resource for increasing the availability of affordable homes to potential homebuyers. This indicator is a measure of the Department's success in achieving the outcomes of expanding homeownership opportunities and helping stabilize neighborhoods. HUD intends to increase sales of its real estate owned homes directly to families who will occupy them rather than to investors. The FY 2007 goal was to ensure that 90 percent of FHA-insurable real estate owned property sales are to owner-occupants.

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

Results, impact, and analysis. During FY 2007, 93 percent (2,735 of 2,954) of FHA-insurable real estate owned single family properties were sold to owner-occupants. The result exceeds the goal of 90 percent and represents an increase from the 90 percent (2,378 out of 2,648) of FHA-insurable properties sold to owner occupants during FY 2006.

The increase in real estate owned sales to owner occupants from FY 2006 levels may be attributable to a performance goal related to sales to owner occupants in FHA's new Management and Marketing contracts, which provided an opportunity to expand home ownership opportunities. Increased sales of real estate owned properties to owner occupants may also have been a result of fewer investors in the national housing market for the past year as interest rates have risen. Furthermore, efforts to increase FHA program participation through legislation have helped promote property sales to prospective owner-occupant purchasers.

Resources and performance link. In FY 2007, FHA insurable real estate-owned single family properties sales to owner-occupants, continued to trend upwards from 85.1 percent in FY 2005 and 90 percent in FY 2006 to 93 percent in FY 2007. The measure shows gains in efficiency to increase homeownership opportunities for low-income homebuyers through sales of FHA properties. It also indicates FHA's continued commitment to reaching first-time homebuyers, revitalizing and stabilizing neighborhoods.

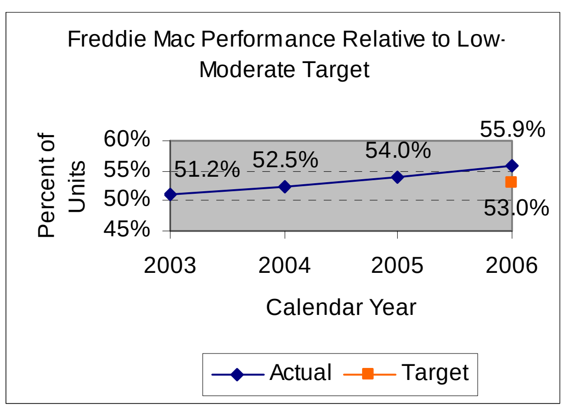
Data discussion. The data for this indicator are from FHA's Single Family Acquired Asset Management System. The data is used as a part of the overall monitoring of FHA's portfolio and as a component of the internal controls of FHA. This performance indicator considers only properties that are in physical condition acceptable to qualify for FHA insurance at the time of sale. HUD regulations require that properties be sold as-is without repairs. By excluding sales of properties that, on the basis of their physical condition, are not appropriate for owner-occupant purchasers, FHA is able to measure the expansion of homeownership opportunities to this segment of the homebuyer more effectively. The data for Real Estate owned properties are included in the audit overseen by the Inspector General.

A1.11: HUD will continue to monitor and enforce Fannie Mae's and Freddie Mac's performance in meeting or surpassing HUD-defined targets for low- and moderate-income mortgage purchases.

Background. Congress mandated that, as Government-Sponsored Enterprises, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) must achieve a number of public purpose goals, one of which is to expand homeownership opportunities for persons of low- and moderate-income. To ensure that this public purpose is achieved, HUD regulations establish an annual performance standard—the Low- and Moderate-Income goal—or mortgages purchased by the Government-Sponsored Enterprises that serve these families, who earn incomes at or below area median income.

Beginning in calendar year 2006, HUD increased the low- and moderate-income goal from 52 percent to 53 percent. The low- and moderate-income goal increases to 55 percent in calendar year 2007 and to 56 percent in calendar year 2008. The low- and moderate-income Home Purchase Mortgage subgoal for calendar year 2006 was 46 percent. It increases to 47 percent in calendar years 2007 and 2008.

Program website.
http://www.hud.gov/offices/hsg/gse/gse.cfm



Results, impact, and analysis. In calendar year 2006, both Fannie Mae and Freddie Mac surpassed HUD's target of 53 percent for low- and moderate-income mortgage purchases as a percentage of all mortgage purchases. Fannie Mae achieved 56.9 percent and Freddie Mac achieved 55.9 percent. Fannie Mae and Freddie Mac surpassed the subgoal of 46 percent with Fannie Mae reaching 46.9 percent

and Freddie Mac reaching 47.0 percent.
Although the Government-Sponsored Enterprises may count both multifamily and single family purchases towards the low- and moderate-income target, both Fannie Mae and Freddie Mac achieve the majority of their performance through the purchase of loans on single family owner-occupied housing.

An analysis of the composition of units qualifying as low- and moderate-income purchases in 2006 shows that 786,000 dwelling units, or 64.0 percent of the dwelling units that qualified under Fannie Mae's Low- and Moderate-Income goal, served low-income families (i.e, families earning 80 percent or less of area median income). Freddie Mac purchased mortgages for 650,000 low-income dwelling units, or 61.8 percent of Freddie Mac's qualifying purchases serving this market.

With regard to the minority composition of the Government-Sponsored Enterprises' low- and moderate-income performance, 16.9 percent of all single family dwelling units that qualified under Freddie Mac's Low- and Moderate-Income goal were for minority borrowers, including 13.5 percent that were for African-American and Hispanic borrowers. The corresponding percentages for Fannie Mae were 20.8 percent minority and 17.6 percent African-American and Hispanic.

Resources and performance link. There are no direct resources or linkages to any outputs associated with this monitoring function.

Data discussion. The data reported under this goal are based on calendar year performance. There is a one year reporting lag because the Government-Sponsored Enterprises report to HUD in the year following the performance year. In addition, because the Government-Sponsored Enterprises' quarterly data is confidential and proprietary, the Department is unable to provide estimates of Fannie Mae's and Freddie Mac's goal performance for the current calendar year. To ensure the reliability of data, Fannie Mae and Freddie Mac apply various quality control measures to data elements provided to HUD. The Department verifies the data through comparison with independent data sources, replication of Fannie Mae's and Freddie Mac's goal performance reports, and reviews of their data quality procedures. Fannie Mae's and Freddie Mac's financial reports are verified by independent audits. The Department has determined that the data is complete and reliable as required by OMB Circular A-136.

A1.12: The number of households receiving homeownership assistance and homeowners receiving housing rehabilitation assistance from the Community Development Block Grant (CDBG), the Indian Housing Block Grant, and the Native Hawaiian Housing Block Grant.

Background. ***Community Development Block Grant*** The CDBG program is a flexible block grant program that provides grantees wide discretion in their use of funds, yet the use of CDBG funds for the rehabilitation of owner-occupied housing units continues to be one of the primary activities assisted by grantees. Such rehabilitation, along with the use of CDBG to assist low- and moderate-income persons to become homeowners, helps to maintain and expand existing housing stock and reduce demand for rental housing. For FY 2007, HUD had two separate goals under this category: owner-occupied units rehabilitated 127,563, and assistance directly contributing to homeownership, 7,400. The CDBG goals are based on historical accomplishments reported by grantees, the actual FY 2007 appropriations, estimated spend-out rates, and a three percent reduction due to the affect of inflation.

Indian Housing Block Grant and Native Hawaiian Housing Block Grant The measures for the Indian Housing Block Grant and the Native Hawaiian Housing Block Grant track the number of affordable homeownership units built, acquired, and rehabilitated each year. These two programs address the severe shortages of decent, affordable housing in Indian Country and in Hawaii. The programs' activities support the President's and the Department's goal to increase minority homeownership.

Program websites.

Community Development Block Grant
http://www.hud.gov/offices/cpd/communitydevelopment/programs/

Indian Housing Block Grant http://www.hud.gov/offices/pih/ih/grants/ihbg.cfm

Native Hawaiian Housing Block Grant
http://www.hud.gov/offices/pih/ih/codetalk/onap/nhhbgprogram.cfm

Results, impact, and analysis. ***Community Development Block Grants*** The CDBG targets were not met. With regard to the owner-occupied units rehabilitated, grantees reported that 117,830 units were assisted through the CDBG program. This represents a shortfall of 9,733 units against the FY 2007 goal of 127,563 units. While the FY 2007 target was set slightly below the FY 2006 actual level of 131,508 owner-occupied units to be rehabilitated, the FY 2006 level likely reflected a higher level of project completions than could be sustained due to a significant effort by HUD and grantees to close out and report on older activities by the end of FY 2006.

With regard to homeownership assistance, CDBG funds were used to assist 6,919 units, a shortfall of 481 units against the goal of 7,400 units. This is in comparison to the FY 2006 actual level of 7,628 homeownership units assisted. The data reflect activities reported upon during FY 2007.

Indian Housing Block Grant The goal to build, acquire, or rehabilitate 5,350 homeownership units was not met. The actual accomplishment, 4,800 units, falls more than 10 percent short of the goal and is more than 19 percent less than what was reported at the same time one year ago for FY 2006.

Each year, the Performance Tracking Database is updated to correct errors and to add data from grantees who submitted late reports. This annual Performance and Accountability Report must be revised each year as well, to reflect the updated database. Revised accomplishments, as of October 2007 are as follows: In FY 2004, 5,478 homeownership units were built, acquired, or rehabilitated. In FY 2005, the total was 6,969; in FY 2006, 6,371. It is likely that the FY 2007 accomplishment (4,800) will also be subject to change once corrections and late submissions are reported. Accomplishments vary because each grantee, not HUD, identifies the activities it will carry out with its block grant funds.

Grantees must report annually, no later than 90 days after their program year ends.

With ever-rising construction costs and the level of program funding remaining relatively flat for the last 3 years, HUD does not anticipate increased production for this indicator.

Native Hawaiian Housing Block Grant The goal to build, acquire, or rehabilitate 101 units was not met. The actual FY 2007 accomplishment, 65 units, fell short of the goal by about 35 percent. The FY 2007 production exceeded the FY 2006 level by 183 percent, since in FY 2006 there were 23 units built.

The sole recipient, the Department of Hawaiian Home Lands, ends its fiscal year on June 30. The data being reported is from the grantee's annual Performance Report for the period July 1, 2006, through June 30, 2007.

Homeownership/Home Rehabilitation Assistance	2004	2005	2006	2007 actual	2007 goal
CDBG (homeownership assistance)	NA	7,530	7,628	6,919	7,400
CDBG (owner-occupied rehabilitation)	116,285	124,544	131,508	117,830	127,563
Indian Housing Block Grant (homeownership assistance and owner-occupied rehabilitation)	5,478*	6,969*	6,371*	4,800	5,350
Native Hawaiian Housing Block Grant (homeownership assistance and owner-occupied rehabilitation)	NA	72	23	65	101

*These figures have been revised from those reported in the Performance and Accountability Report and Annual Performance Plan due to subsequent adjustments to the database.

Resources and performance link. ***Community Development Block Grant*** Local governments receive formula CDBG funds either directly from HUD or through states. Local governments and states develop plans and priorities for expenditure of CDBG funds through CPD's consolidated planning process. The number of units assisted is primarily a function of grantee funding decisions and local level implementation. In FY 2007, CDBG grantees expended $582.3 million on single unit residential rehabilitation, which represents 12.75 percent of all disbursements during the fiscal year. This represents the largest single use of CDBG funds but represents a $2 million reduction from the FY 2006 level for the same activity.

Native Hawaiian Housing Block Grant and Native Hawaiian Housing Block Grant For the Department of Hawaiian Home Lands, as for many American Indian tribes and Alaska Native villages, the Block Grant program is the sole source or the main source of funding for affordable housing. However, affordable housing projects in Indian Country tend to be long-term, and HUD has not observed performance levels immediately corresponding to changes in funding levels. Nevertheless, such corresponding changes would be inevitable over a course of several years. Small tribes in remote locations often stretch construction and rehabilitation projects over several funding years, and only report on accomplishments in the year that projects are completed. In addition to providing or rehabilitating homes, recipients can offer other housing services to their low-income beneficiaries. Transitional housing, crime prevention and safety activities, housing management services, and counseling also consume program funds, and grantees have the flexibility to use grant funds for whichever eligible activity is currently needed in their community. Therefore, it has proven difficult to predict the number of units that will be built, acquired, and rehabilitated in any given year. However, this measure is a primary indicator of program output. Targets have been based on relatively flat funding and annual trend data.

Reasons for shortfall/Plans and schedule to meet the goal. ***Community Development Block Grant*** There is no evident reason as to the shortfall in the number of units assisted in FY 2007 and a thorough analysis will likely take several months. Potential contributing factors may include increased per unit costs, possibly reflecting significant materials and labor cost increases, initiation of fewer owner-occupied rehabilitation activities by grantees, and lack of complete reporting by grantees. Further, FY 2006 accomplishment levels were likely elevated by joint HUD and grantee efforts to close out older activities in advance of full implementation of performance measurement framework on October 1, 2006. The Office of Block Grant Assistance's plan of action will be guided by the data analysis and discussions with grantees.

Indian Housing Block Grant HUD sets the targets based on past performance; however, grantees are not obligated to pursue those targets. Each grantee determines the eligible activities it will carry out each year, based on local needs. Although the target was reached in fiscal years 2004 through 2006, funding in those years was relatively flat. In fact, funding is currently below the FY 2003 levels and after falling from 2003 levels, but construction and management costs have continued to rise.

Native Hawaiian Housing Block Grant The shortfall was due to uncontrollable factors such as building permit delays, lack of availability of rehabilitation contractors, necessary extensive homebuyer counseling, and unanticipated environmental review delays. The grantee will continue to develop planned subdivision communities and enhance its Homeownership Assistance Program to better prepare families for home purchase and ownership. In October 2007, approximately 200 units had started construction or rehabilitation activities, of which 110 are forecast for completion in FY 2008 compared to 101 in FY 2007.

Data discussion. ***Community Development Block Grants*** The program values in this table are based on historical accomplishments reported by grantees in the Integrated Disbursement and Information System. CPD has pursued a variety of enhancements to the system that, along with data clean-up efforts, have resulted in a continuous improvement in data quality but further improvement is necessary. CPD field staff often verifies program data when monitoring grantees.

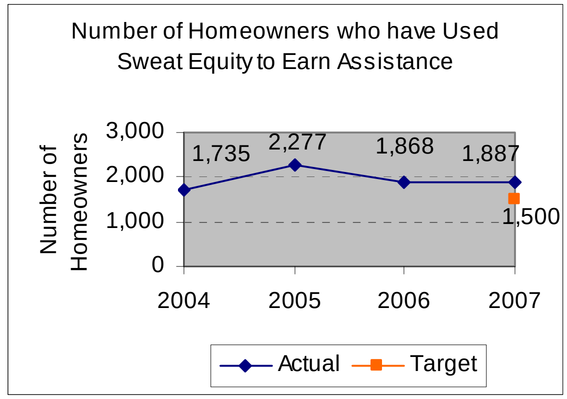
Indian Housing Block Grant data come from more than 500 recipients through Annual Performance Reports. The data are captured in the Performance Tracking Databases of each Area Office of Native American Programs and then aggregated into a national database at headquarters. Because Indian Housing Block Grant recipients have 90 days after their fiscal year ends to report, recipients whose fiscal years end after June 30 report in the next federal fiscal year. Accomplishments of the Indian Housing Block Grant program that are reported in this document will likely require future revisions because it is expected that some grantees will report late and because some adjustments are typically made later in the year to correct previous submissions. The Office of Native American Programs continually monitors the functionality of the database and has emphasized to grantees the importance of correct and timely reporting.

The Native Hawaiian Housing Block Grant The sole recipient, the Department of Hawaiian Home Lands, ends its fiscal year on June 30. The data being reported is from the grantee's Annual Performance Report for the period July 1, 2006, through June 30, 2007.

A1.13: The number of homeowners who have used sweat equity to earn assistance with Self-help Homeownership Opportunity Program funding reaches 1,500.

Background. This indicator tracks the number of housing units completed during the period from July 1, 2006, to June 30, 2007, by national and regional nonprofit organizations and consortia receiving Self-help Homeownership Opportunity Program funds. Accomplishments for the fourth quarter of FY 2007 were not available in time for publication of this report. The output tracked by this indicator also contributes toward increasing the national homeownership rate and the number of minority homeowners, two key Presidential and Secretarial priorities. The program assists households who would not otherwise be able to afford their own homes.

Program website. www.hud.gov/offices/cpd/affordablehousing/programs/shop/index.cfm



Results, impact, and analysis. During the one year period ending June 30, 2007, Self-help Homeownership Opportunity Program grantees completed 1,887 units, surpassing the program goal of 1,500 units by 387 or 25.8 percent, and exceeding the 2006 level of 1,868 by 19 units. The achievement of this output indicator is directly affected by several external factors: the cost and availability of land, the level of Self-help Homeownership Opportunity Program appropriations, the "pass-through" nature of program funds to local affiliates, the level of sophistication of local organizations in developing and managing self-help housing, and the varying skill levels of the homebuyers and volunteers who work on the construction of the homes.

Resources and performance link. The full effect of the FY 2004 increase from $10,000 to $15,000 in the program's allowable average assistance level per unit will continue to be felt. Consequently, the FY 2008 assistance goal is maintained at 1,500 households. The doubling in program funding requested in FY 2008, compared to the FY 2007 appropriation level, will begin to affect results in FY 2009, as FY 2008 funds will be awarded on a competitive basis during the fourth quarter of FY 2008.

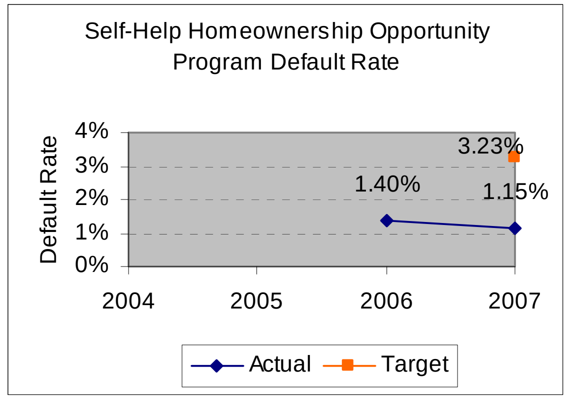
Data discussion. Reports compiled by Self-help Homeownership Opportunity Program grantees are used to track performance under this indicator. HUD Headquarters staff monitors grantees to ensure that reported accomplishments are accurate.

A1.14: The Self-help Homeownership Opportunity Program will maintain a default rate that is lower than that under the comparable U.S. Department of Agriculture 502 loan program.

Background. This indicator measures the stability of homeownership both for the new owners and as an addition to the total national homeownership housing stock. The current U.S. Department of Agriculture 502 default rate, net of recoveries, is 3.23 percent. Given the fact that loan qualification criteria for low-income homebuyers of units assisted by the Self-help Homeownership Opportunity Program, such as credit history, are applied more liberally than is the case with federal insured loan programs, such as the U.S. Department of Agriculture 502 loan program, the target for maintaining a lower default rate is ambitious. This is especially true considering that almost 80 percent of homebuyers of the Self-help Homeownership Opportunity Program assisted units have incomes under 50 percent of median for their area.

Program website. www.hud.gov/offices/cpd/affordablehousing/programs/shop/index.cfm

Results, impact, and analysis. The FY 2007 goal was greatly exceeded with a default rate of 1.15 percent. This compared to 3.23 percent for the USDA Single Family Program, which includes the Section 502 Direct Loan Program. The FY 2007 default rate is 17 percent lower than the FY 2006 default rate of 1.40 percent. The lower default rate is likely due to on-going housing counseling efforts by local affiliates to keep homeowners from losing their homes.



Resources and performance link. There is no direct correlation between the $20 million Self-help Homeownership Opportunity Program funds provided and the default rate. The Department recognizes the success of this program and requested a doubling of this program in FY 2008.

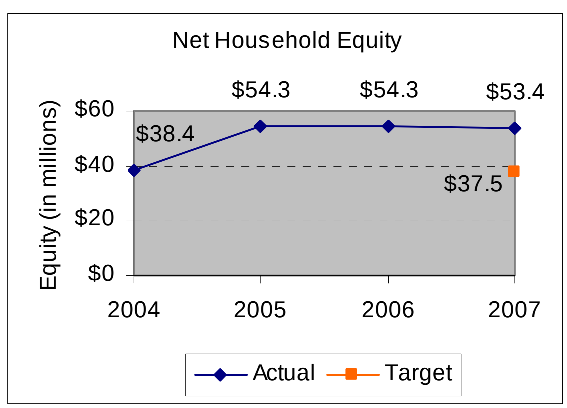
Data discussion. Data are from progress reports submitted by grantees. HUD Headquarters staff monitors grantees to ensure that accomplishments are accurate.

A1.15: Create net household equity of $37.5 million through the Self-help Homeownership Opportunity Program.

Background. This outcome indicator measures the extent of which assisted households that were otherwise unable to afford their own home but for the Self-help Homeownership Opportunity Program become homeowners and accumulate equity in their home. A minimum of $37.5 million in home equity that was projected to be created annually for low-income homebuyers assisted by this program through 2011 is premised on an average of $25,000 per household, to be achieved largely though the sweat equity contributions of the households themselves and community volunteer labor. By any measure, this is a significant amount of wealth created within a relatively short period of time, and an ambitious target for any housing assistance program at any level of government, especially considering the relatively low level of federal assistance per unit. Approximately two dollars of household equity would be created for each one dollar of program funds invested.

Program website. www.hud.gov/offices/cpd/affordablehousing/programs/shop/index.cfm

Results, impact, and analysis. The target was met with over $53.4 million in household equity created with the assistance of Self-help Homeownership Opportunity Program funds in FY 2007—$16 million, or 43 percent, above the $37.5 million target. This compares to the $54.3 million created in FY 2006, a decrease of one percent year-over-year. This modest decrease is likely a consequence of the current turmoil in the national housing market. Approximately $2.70 of household equity was created for every one dollar of Self-help Homeownership Opportunity Program funds invested in FY 2007. Since FY 2003, over $241 million in household



equity has been created through the assistance of the Self-help Homeownership Opportunity Program.

Resources and performance link. The amount of household equity produced is a direct consequence of the units produced. Since Self-help Homeownership Opportunity Program funding has decreased in the last several years, the amount of sweat equity created will be reduced going forward.

Data discussion. Self-help Homeownership Opportunity Program data are from progress reports submitted by grantees. HUD Headquarters staff monitor grantees to ensure that accomplishments are accurate. Actual equity is measured via appraisals effectuated by the grantees.

A1.16: Through the HOPE VI Community and Supportive Services program, 133 public housing residents will become homeowners.

Background. The Community and Supportive Services component of the HOPE VI program encompasses all activities that are designed to promote upward mobility, housing self-sufficiency and improved quality of life for the residents of the public housing project involved. Many of these activities assist public housing residents in becoming homeowners, which is a key indicator of housing self-sufficiency. The Strategic Plan's outcome goal is that between FY 2006 and FY 2011, 800 public housing families will become homeowners through this program component. In some areas, the housing market has slowed (increased interest rates, etc.) and is not able to absorb the homeownership units created in the time frame originally planned by the grantees, including assisting public housing individuals become homeowners. Accordingly, the FY 2007 goal was changed from 156 families to 133 residents to reflect these factors. Additionally, HUD has changed the terminology from "families" to "residents" to more accurately reflect the method of data collection.

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

Results, impact, and analysis. The goal was exceeded by 196 percent, from July 1, 2006 through June 30, 2007, 394 public housing residents became homeowners through the HOPE VI Community and Supportive Services program, exceeding the goal of 133. Cumulatively, as of June 30, 2007, approximately 3,024 public housing residents had purchased homes in connection with this program. The FY 2007 achievement is attributable to HUD's continued emphasis on timeliness and accountability in the implementation of HOPE VI grants and the Public Housing Agencies' on-going efforts to meet the commitments of their revitalization plans. Additionally, the absence of the HOPE VI progress reporting system (see data discussion below) made goal setting and progress evaluation difficult, which translates into the higher margin of achievement seen here. The Department anticipates that public housing residents will continue to become homeowners through HOPE VI Community and Supportive Services. The goal for FY 2008 is 117 residents, a reduction of the goal from FY 2007 to reflect a decrease in activities as grants near completion.

Resources and performance link. This program is subject to the availability of appropriations by Congress. The Congress appropriated $99 million to continue a modest HOPE VI program in FY 2007. The President's FY 2008 budget proposes no additional funds for HOPE VI and proposes to rescind all FY 2007 HOPE VI appropriations. Though the Department is not requesting additional funds for this program, it is focused on continuing the progress of current projects and maximizing the effective use of program resources. As a means to encourage completion of delayed HOPE VI projects and to promote the efficient use of funds, the Department proposes in the FY 2008 budget to recover unexpended HOPE VI obligations from nonperforming grantees whose funds were appropriated in fiscal years 2001 and prior. These recovered funds may then be reused for new HOPE VI grants and technical assistance. Accordingly, future activity related to this goal would be met with available prior year funds.

Data discussion. This goal is based on HOPE VI plans submitted by PHAs. Until June 2006, the program office used the PIH HOPE VI Progress Reporting system, consisting of quarterly progress reports submitted by grantees. Due to the delayed approval of the Department's technical assistance plan, the contract for this system lapsed and no replacement contract could be put in place at that time. As of October 2007, the program office has secured a new contract. In the intervening time, the program office manually collected data submitted by grantees for the quarters missed. Data in are judged to be reliable for this measure. However, the data collected through the manual process that was needed until the new contract was in place may require future adjustments. Submitted data are reviewed by HUD staff and verified through grant management activities (for example, phone, email and written communications) and site visits. HUD Headquarters staff reviews the reports each quarter and compares progress to stated goals and the results of on-site visits by HUD staff.

A1.17: The HOPE VI Program will create 800 new homeownership units.

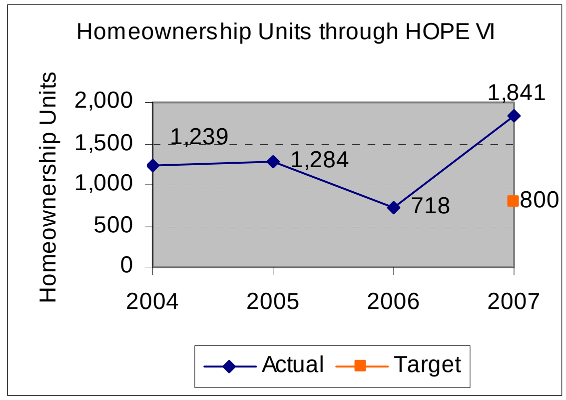
Background. Many families are prevented from purchasing a home due to some combination of low income, low savings, poor credit history, and lack of awareness of opportunities. The Department addresses these issues, in part, through its Strategic Plan outcome measure to create 10,000 new homeownership units through the HOPE VI Revitalization program between FY 2006 and FY 2011. This goal will be achieved through a variety of means, including construction, rehabilitation, lease-purchase, Section 32 (selling existing public housing rental units or acquired units), and provision of direct financing to purchasers (e.g., down payment or closing cost assistance, or subordinate mortgages). The target for the number of new homeownership units to be created during FY 2007 was reduced from 1,500 to 800 units because some HOPE VI homeownership programs have experienced delays in their completion dates. In some areas, the housing market has slowed (increased interest rates, etc.) and is not able to absorb the homeownership units created in the time frame originally planned by the grantees.

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

Results, impact, and analysis. The goal was exceeded by 130 percent. From July 1, 2006 through June 30, 2007, the HOPE VI program created 1,841 homeownership units. Cumulatively, as of June 30, 2007, approximately 8,629 homeownership units had been produced through the program. FY 2007 is the first year this goal is being tracked in the Annual Performance Plan and Performance and Accountability Report.

The FY 2007 achievement is attributable to HUD's continued emphasis on timeliness and accountability in the implementation of HOPE VI grants and the PHAs on-going efforts to meet the commitments of their revitalization plans. Additionally, the absence of the HOPE VI progress reporting system (see data discussion below) made goal setting and progress evaluation difficult, which translates into the higher margin of achievement seen here. The Department anticipates grantees' continued production in homeownership options. The Department has set a target of 800 additional units for FY 2008.

Resources and performance link. This program is subject to the availability of appropriations by Congress. The Congress appropriated $99 million to continue a modest HOPE VI program in FY 2007. The President's FY 2008 budget proposes no additional funds for HOPE VI and proposes to rescind all FY 2007 HOPE VI appropriations. Though the Department is not requesting additional funds for this program, it is focused on continuing the progress of current projects and maximizing the effective use of program resources. As a means to encourage completion of delayed HOPE VI projects and to promote the efficient use of funds, the Department proposes in the budget to recover unexpended HOPE VI obligations from nonperforming grantees whose funds were appropriated in fiscal years 2001 and prior. These recovered funds may then be reused for new HOPE VI grants and technical assistance. Accordingly, future activity related to this goal would be met with available prior year funds.



Data discussion. This goal is based on HOPE VI plans submitted by PHAs. Until June 2006, the program office used the PIH HOPE VI Progress Reporting system, consisting of quarterly progress reports submitted by grantees. Due to the delayed approval of the Department's technical assistance plan, the contract for this system lapsed and no replacement contract could be put in place at that time. As of October 2007, the program office has secured a new contract. In the interim, the program office manually collected data submitted by grantees for the quarters missed. Data in are judged to be reliable for this measure. However, the data collected through the manual process that was needed until the new contract was in place may require future adjustments. Submitted data are reviewed by HUD staff and verified through grant management activities (e.g., phone, email and written communications) and site visits. HUD Headquarters staff reviews the reports each quarter and compares progress to stated goals and the results of on-site visits by HUD staff.

A2 Increase minority homeownership.

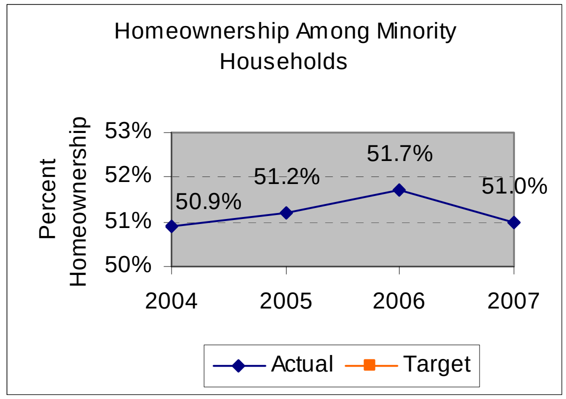
A2.1: The homeownership rate among targeted households.

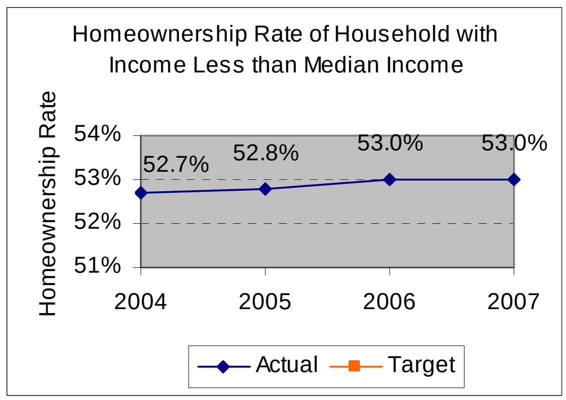
Background. Three tracking indicators help HUD understand the degree of progress in promoting homeownership among underserved populations. These are measures of homeownership among racial and ethnic minority households, households with incomes below the area median income, and households in central cities. FY 2007 targets were not established for these indicators because of the current dominant impact of the macro-economy.

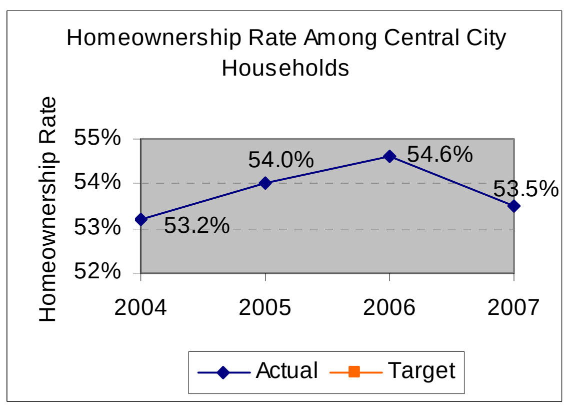
Program website. http://www.huduser.org/periodicals/ushmc.html

Results, impact, and analysis. The homeownership rate for all minorities combined was 51.0 percent in the third quarter of 2007, a statistically significant decrease of 0.7 percentage point from the third quarter of 2006. There were 16,510,000 minority homeowners in the third quarter of 2007, an increase in 241,000 from a year earlier.

The decrease in minority homeownership reflecting the generalized decrease in homeownership during challenging market conditions during FY 2007. Another indicator of homeownership among HUD's target populations is for households with incomes below the national median income. These households remained at 53.0 percent in the third quarter, the same as the third quarter of 2006. The homeownership rate in central cities, at 53.5 percent, was down 1.1 percentage points from the third quarter of 2006.







Resources and performance link. Homeownership rates had increased recently for each of these populations during the extended period of low mortgage interest rates and innovative mortgage products. Despite negative macroeconomic factors, HUD's programs continue to play a significant supporting role. Minority households represented 33 percent of FHA-insured first-time homebuyers in FY 2007. HUD's strategies to increase minority homeownership include increased outreach and continued enforcement of equal opportunity in housing.

HUD's housing counseling program helps members of minority and other underserved groups to build the knowledge to become homeowners and to sustain their new tenure by meeting the ongoing responsibilities of homeownership. HUD's largest block grant programs, CDBG and HOME, each have a sizable homeownership component. The HOME program, for example, assisted nearly 35,000 homeowners during FY 2007.

Data discussion. The indicator is based on averages of monthly Current Population Survey data for the last quarter of the fiscal year. The data are free of limitations affecting the measure's reliability. Changes in the estimated minority homeownership rate exceeding 0.53 percentage points are statistically significant with 90 percent confidence.

A2.2: Increase the number of minority homeowners by 5.5 million between 2002 and 2010.

Background. This indicator supports the goal of the President's Minority Homeownership Initiative of adding 5.5 million minority homeowners by the end of the decade (that is, the last quarter of 2010 compared with the second quarter of 2002). This presidential priority is an important theme and outcome goal in HUD's Strategic Plan and supports the Department's long-term objectives to expand national homeownership opportunities and increase minority homeownership.

Results, impact, and analysis. Between the beginning of the President's Initiative and the third quarter of 2007, there has been a net increase of 3.19 million minority homeowners, achieving 58 percent of the goal while 62 percent of the time has elapsed. Gross additions to the ranks of minority homeowners are estimated at 3.74 million. The gross measure is not influenced by households that leave homeownership each year as part of the typical course of life, such as frail elderly people moving into assisted living, couples divorcing, or young families choosing to rent while settling in new regions.

Minority homeowners increased by 241,000 during the year ending with the third quarter, raising their total to 16,510,000. Despite the increase, the minority homeownership rate slipped to 51.0 percent because of proportionally greater growth in minority households. During FY 2007, shifting economic factors held back progress on the President's goal. Changes in macro-economic conditions as well as turmoil in the subprime mortgage market has made homeownership less affordable and stable for new purchasers and has begun to force an increased number of defaults among recent purchasers with adjustable rate and other specialty mortgages. In addition, tightening credit markets can serve to limit the number of new homebuyers approved for mortgages.

Resources and performance link. An important component of the long-term success of this goal is to maintain first-time minority homebuyers as a substantial proportion of FHA's mortgage insurance business. In part, this will occur by implementing FHA modernization to make affordable financing available to more households, so that they need not rely unnecessarily on subprime lenders. The above distinction between gross and net additions to minority homeownership highlights the importance of HUD's major programmatic efforts to ensure that homeownership gains are sustainable, including pre- and post-purchase housing counseling, funded at $41.6 million in FY 2007, and FHA's loss mitigation and foreclosure prevention programs. HUD also is pursuing administrative changes through "FHA Secure" to help more families stay in their homes by refinancing existing non-FHA mortgages.

Sustainable homeownership opportunities are also provided by grant programs such as HOME Investment Partnerships, CDBG, and the sweat-equity model of the Self-help Opportunity Program. Also, strong fair housing efforts, reflecting $45.5 million of budget authority in FY 2007, are key to maximizing homeownership opportunities and preventing predatory lending.

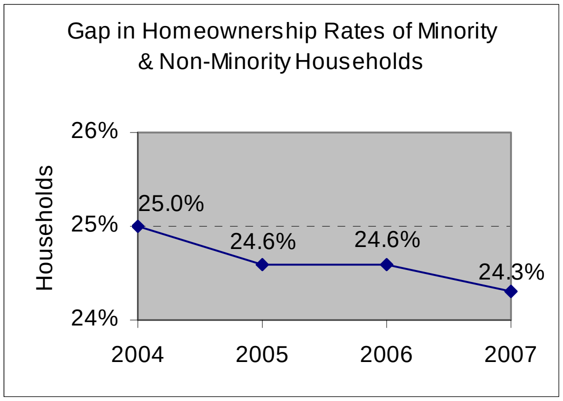
Data discussion. This indicator is based on third-quarter calendar year estimates from the Current Population Survey, conducted monthly by the Bureau of Census. This corresponds to the final quarter of the fiscal year. Gross change estimates are made using the American Housing Survey.

A2.3: The gap in homeownership rates of minority and non-minority households.

Background. This tracking indicator assesses progress for one of HUD's central objectives, removing homeownership barriers and increasing homeownership among minorities. In 2002, President Bush launched an initiative to add 5.5 million minority homeowners by 2010. Homeownership rates are most susceptible to policy intervention among renters who are marginally creditworthy, discouraged by discrimination, or unaware of the economic benefits of homeownership. This indicator measures the difference in percentage points between the homeownership rate of households who are "non-Hispanic white alone" and the homeownership rate of minority households. No numeric target is established because of the current dominant impact of the macroeconomy.

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

Results, impact, and analysis. During the third quarter of calendar year 2007, the minority homeownership gap was 24.3 percentage points. This gap is the same as the record low quarterly gap of 24.3 percentage points recorded in the third quarter of 2006. The gap measure remained stable because the decrease in minority homeownership rates was matched proportionally by decreases for non-minority households, reflecting the widespread nature of financial stresses currently faced by homeowners with sub-prime mortgages and reduced house values.



Resources and performance link. FHA is a major source of mortgage financing for minority homebuyers. During FY 2007, 33 percent of FHA home purchase endorsements were for first-time minority homebuyers. FHA efforts to modernize programs will help reduce the homeownership gap between whites and minorities as well as increase the overall homeownership rate.

Data discussion. This indicator is based on fiscal-year averages of quarterly estimates from the Current Population Survey. The survey data have the advantage of being nationally representative, reliable, and widely recognized. This indicator replaces an indicator based on the biennial American Housing Survey, thus allowing timelier and more frequent reporting and greater consistency with HUD's other homeownership indicators.

A2.4: The mortgage disapproval rates of minority applicants.

Background. This is a tracking indicator for minority mortgage disapproval rates, an important early indicator of trends in minority homeownership. Equal access to home loans is critical for decreasing disparities in homeownership. This measure tracks home purchase mortgage disapproval rates of minorities. As in past years, a FY 2007 performance goal was not established because of HUD's limited span of control relative to external factors.

Denial Rates* for Mortgage Applications by Race and Ethnicity

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

* Excludes denials at the preapproval stage.

** Includes "two or more races," but excludes "other/unknown/missing."

Results, impact, and analysis. The most recent data show that during calendar year 2006, the rate at which mortgage applications were denied continued to turn sharply upward, and especially for minorities. Minority households continued to be denied mortgages at higher rates than for white alone households. Minority groups experienced denial rates ranging from 14.7 percent to 25.3 percent, and averaged 22.0 percent, compared with 11.2 percent for white alone.

Mortgage applications continued at high volumes, as the 7.25 million applications were down only 2.8 percent from the record volume of 2005. Home loans became harder to obtain as lenders increased the overall denial rate by 2.1 percentage points from 2005 levels to 15.9 percent in 2006. Yet even the tighter credit affected minorities disproportionately, as the overall minority denial rate increased 3.6 percentage points, compared with 0.7 point for white alone.

An important factor contributing to increasing denials for minorities has been the rapid increase in the number of applications. There were 2.63 million minority loan applications in 2006, up six percent compared with 2005, and fully 39 percent compared with 2004. With so many households seeking loans, it is probable that a significant proportion were not fully prepared. The primary causes of disparities in mortgage denial rates among race and ethnic groups are differences in their average disposable income and creditworthiness. In some cases lenders have been shown to discriminate against minority applicants by disapproving their mortgages while approving non-minorities who were less creditworthy or had less income. In such cases HUD can take fair housing enforcement actions. HUD's Office of Fair Housing and Equal Opportunity is focusing increased attention on addressing the role of discrimination in contributing to mortgage approval disparities.

Resources and performance link. A primary strategy for addressing the long-standing disparity in mortgage denial rates is to use housing counseling, funded at $41.6 million in FY 2007, to help potential homebuyers understand their income eligibility and improve their creditworthiness. Homeownership counseling is targeted to groups who are disadvantaged in their familiarity with the homebuying and financing process, thus reducing disparities. The goals that HUD has established for the two largest secondary mortgage market lenders, Fannie Mae and Freddie Mac, also encourage increased lending to minorities. In addition, FHA has a focus on and products that encourage increased lending to minorities. Ginnie Mae also supports this effort through its Targeted Lending Initiative focused on underserved areas.

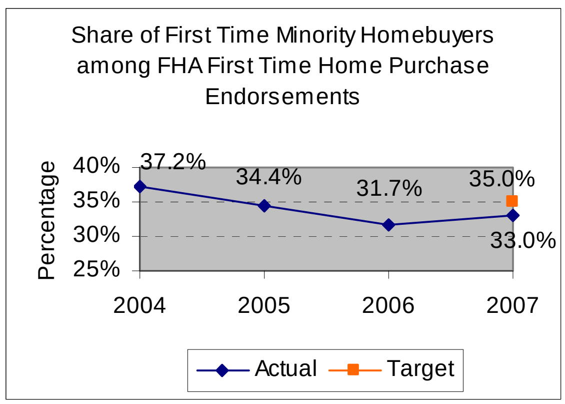
Data discussion. This indicator uses Home Mortgage Disclosure Act data, which are collected from lenders on a calendar-year basis. Calendar year 2007 data are not yet available. The mortgage applications counted are conforming loans or loans insured by FHA, Veterans Affairs, or Rural Housing Service, and are limited to owner-occupied single family homes purchased in core-based statistical areas. Loan denials at the pre-approval stage are excluded, although new but incomplete data suggest that initially denied or unaccepted pre-approvals may account for at least one percent of all loans. Refinance loans and manufactured housing loans are excluded. The data present a generally reliable picture of mortgage denial disparities, although the 18.2 percent denial rate shown for borrowers with missing race/ethnicity data exceeds the rate overall as well as for white alone, suggesting that such borrowers disproportionately are minority households.

A2.5: The share of first-time minority homebuyers among FHA home purchase-endorsements is 35 percent.

Background. FHA is a major source of mortgage financing for minority as well as low-income buyers. Increasing the number of FHA endorsements for minority homebuyers will help achieve the outcome of reducing the homeownership gap between whites and minorities as well as increase the overall homeownership rate. Additionally, this performance indicator directly supports the President and Secretary's commitment to add 5.5 million minority homebuyers by 2010.

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

Results, impact, and analysis. During FY 2007, 33 percent of FHA endorsed loans were to first-time minority homebuyers. This result falls short of meeting the established aggressive goal of 35 percent but represents a 1.3 percentage point increase from the 31.7 percent of first-time minority endorsements during FY 2006.



Since FY 2001, FHA has seen first-time minority endorsements decrease from 39.7 percent to 33 percent in FY 2007. While FHA market has diminished, there has been a significant increase in minority borrowing nationwide. Current statutory constraints of FHA products and traditional barriers to minority homeownership (down payment challenges, lack of counseling, and others) limit FHA to effectively serve this portion of the market and likely attributed to the shortfall.

FHA has pending legislation that will increase its programs flexibility to reach more prospective homebuyers and to increase first-time minority market. The FHA Modernization legislation has been approved by the House of Representatives and is awaiting Senate approval. Passage of this legislation will reduce statutory barriers and increase FHA's flexibility to respond to changes in the marketplace. As a result, FHA will be able to serve more prospective homebuyers by providing an alternative to subprime loans with high or adjusting interest rates and closing costs, as well as expensive pre-payment penalties. This legislation is important because studies have shown that minority borrowers are more susceptible to being placed with higher cost loans by aggressive lenders who target minorities. With FHA currently restricted in its ability to offer and price products comparable to other lenders, a significant portion of the minority homebuyer market has often fallen prey to higher cost loans that jeopardize the most common form of wealth building in this country, which is homeownership.

Resources and performance link. The FHA insurance programs are measured in terms of insurance in force rather than program budget authority. In FY 2007, the Mutual Mortgage Insurance Fund endorsed approximately $84 billion of mortgages. In FY 2007, the share of endorsements to minority first-time homebuyers increased incrementally upwards. Results of this indicator are beyond the ability of HUD to control. The nationwide mortgage credit-crunch has disproportionately affected minorities who may believe that they are no longer able to obtain mortgage financing. Thus, it is possible that FHA's share of minority first-time homebuyers may reduce slightly.

Reasons for shortfall/plans and schedule to meet the goal. Despite unfavorable market conditions, FHA made substantial progress toward meeting its 35 percent goal. Barriers affecting the successful completion of this goal primarily lie outside of the control of HUD. During the first half of FY 2007, first time minority homebuyers opted for subprime and non-conventional loan products. The proliferation of non-traditional loan products provided prospective homebuyers with a variety of products that appeared attractive on the surface, but contained features detrimental to the long-term financial health of the homebuyer. Conversely, the second half of the fiscal year many potential homebuyers realized the uncertainty/dangers of certain subprime products ultimately leading to the collapse of the non-prime market and the beginning of an overall real estate market downturn. FHA aims to increase its first-time minority endorsements through continued marketing and counseling efforts and the aforementioned legislation that will allow FHA to more effectively compete in the first-time minority homebuyer market. If approved, modernization will reduce the statutory three percent minimum down payment, create a new risk based insurance premium structure that would match premium amounts with the credit profile of the borrower, and increase loan amounts. These changes will assist not only FHA in effectively meeting the President's goal of increasing minority homeownership.

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

A2.6: HUD will continue to monitor and enforce Fannie Mae's and Freddie Mac's performance in meeting or surpassing HUD-defined targets for mortgages financing special affordable housing.

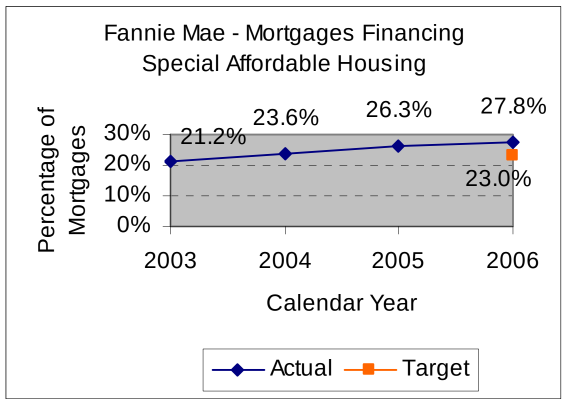
Background. HUD defines performance targets for Fannie Mae and Freddie Mac (two housing Government-Sponsored Enterprises) in several areas, including mortgage purchases for special affordable housing. This target is intended to achieve increased purchases by Fannie Mae and

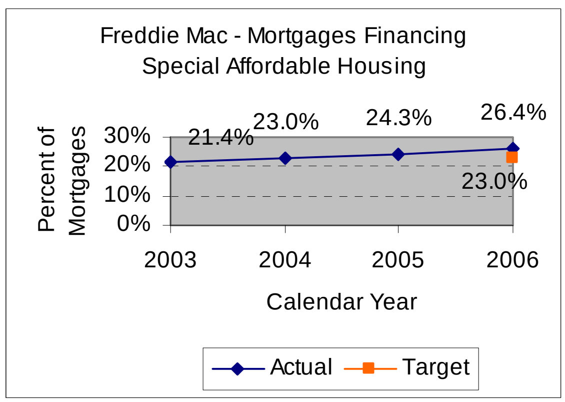
Freddie Mac of mortgages on rental housing and owner-occupied housing that address the unmet needs of very low- and low-income families. As such, the Special Affordable Housing goal supports HUD's national objectives for expanding both affordable homeownership and the availability of affordable rental housing. Mortgages qualify as special affordable if they support dwelling units either for very low-income families (those earning no more than 60 percent of area median income) or for low-income families (those earning no more than 80 percent of area median income) located in low-income areas. Low-income areas are defined as (1) metropolitan census tracts where the median income does not exceed 80 percent of area median income and (2) non-metropolitan census tracts where median income does not exceed 80 percent of the county median income or the statewide metropolitan median income, whichever is greater.

Beginning in calendar year 2006, HUD increased the Special Affordable Housing goal from 22 percent to 23 percent. The Special Affordable Housing goal increases to 25 percent in 2007 and to 27 percent in 2008. The Special Affordable Home Purchase Mortgage subgoal for calendar year 2006 was 17 percent. The sub goal target increases to 18 percent in calendar years 2007 and 2008.

Program website. http://www.hud.gov/offices/hsg/gse/gse.cfm

Results, impact, and analysis. In calendar year 2006, Fannie Mae and Freddie Mac both surpassed the 23 percent target. Fannie Mae achieved 27.8 percent, and Freddie Mac achieved 26.4 percent. Fannie Mae surpassed the subgoal of 17 percent by almost a full percentage point while Freddie Mac exceeded the sub goal by only four one-thousandths of a percent.



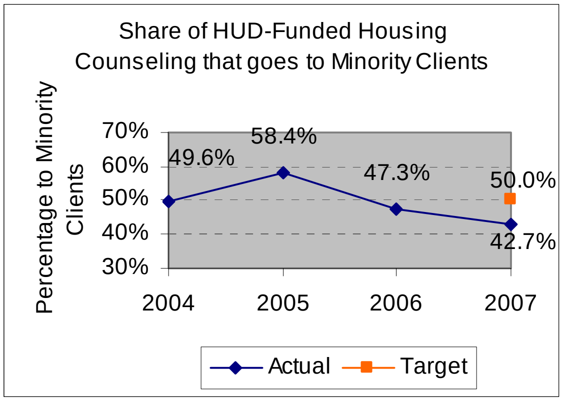


An analysis of the composition of units qualifying under the Special Affordable Housing goal in 2006 shows that, of all the dwelling units that qualified for this goal in 2006 for Fannie Mae, 48.6 percent were one-unit owner-occupied properties (including condominium and cooperative units), 1.1 percent were owner-occupied units in two to four-unit properties, 16.2 percent were rental units in single family (one to four-unit) properties, and 34.1 percent were multifamily rental units. For Freddie Mac the corresponding percentages in 2006 were 47.1 percent one-unit owner-occupied properties, 1.2 percent owner-occupied units in two to four-unit properties, 9.9 percent rental units in single-family properties, and 41.8 percent multifamily rental units.

Data discussion. The data reported under this goal are based on calendar year performance. There is a one-year reporting lag because Fannie Mae and Freddie Mac report to HUD in the year following the performance year. In addition, because the Government-Sponsored Enterprises' quarterly data is confidential and proprietary, the Department is unable to provide estimates of Fannie Mae's and Freddie Mac's goal performance for the current calendar year. To ensure the reliability of data, Fannie Mae and Freddie Mac apply various quality control measures to data elements provided to HUD. The Department verifies the data through comparison with independent data sources, replication of Fannie Mae's and Freddie Mac's goal performance reports, and reviews of their data quality procedures. Fannie Mae's and Freddie Mac's financial reports are verified by independent audits. The Department has determined that the data is complete and reliable as required by OMB Circular A-136.

A2.7: Minority clients are at least 50 percent of total clients receiving housing counseling in FY 2007.

Background. The housing counseling assistance program is an integral part of achieving the outcome of helping to increase the minority homeownership rate. It supports the President and Secretary's commitment to add 5.5 million homebuyers by 2010. In order to specifically target and increase the overall amount of funding benefiting the minority community, the Department set aside housing counseling appropriations specifically for counseling in conjunction with the Housing Choice Voucher program, agencies serving colonias, and predatory lending. Clients tracked through this indicator include those receiving various forms of housing counseling including; homebuyer education, pre-purchase, and loss mitigation/default counseling to rental, fair housing, and homeless counseling. Depending on the state of the economy and the housing market, demand for various types of counseling rises and falls, and may vary for reasons outside of HUD's control. The Department is confident, however, that HUD-approved agencies are providing quality counseling services that will help clients receiving rental or homeless counseling rather than the number of clients served in a given year. As a result, HUD revised this indicator in FY 2006 to focus on ensuring that minorities represent a proportion (at least 50 percent) of families and individuals receiving housing counseling from HUD-approved housing counseling agencies, rather than on targeting a specific number of clients.



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

Results, impact, and analysis. HUD does not expect to meet this goal, although final results for clients counseled in FY 2007 could not be fully assessed by the date of this publication. Reporting results from calendar year 2007, third quarter, indicate that 85,712 of the 200,567 clients receiving HUD-funded housing counseling to be minorities. This calendar year 2007, third quarter, result of 42.7 percent indicates that the established FY 2007 minimum goal of 50 percent will not be achieved. Final housing counseling data will become available early in FY 2008. HUD approved counseling agencies are given 90 days after the end of the fiscal year to report the results of counseling activity for that fiscal year and to submit requests to HUD for reimbursement for counseling services provided.

Resources and performance link. FHA and the Office of Single Family Housing sponsor 2,300 approved housing counseling agencies throughout the country that can provide advice on buying a home, renting, defaults, foreclosures, credit issues and reverse mortgages to clients at a low or minimal cost. Funding in FY 2007 of $41.6 million was provided to housing counseling agencies to provide counseling services. The FY 2007 appropriations, which were the same as the FY 2006 appropriations, come to the President's FY 2008 budget request of $50 million. In the wake of the subprime market collapse and record setting foreclosures, the housing market is as complex and dynamic as ever. People more than ever need housing counseling services to appropriately resolve housing situations and have a trusted source that they can approach with housing related questions.

Reason for shortfall/Plans and schedule to meet this goal. HUD's inability to meet this goal is due to reasons beyond HUD's control. However, housing counseling is readily available for anyone who desires to receive it, although, HUD cannot predict those who will actually seek housing counseling services.

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

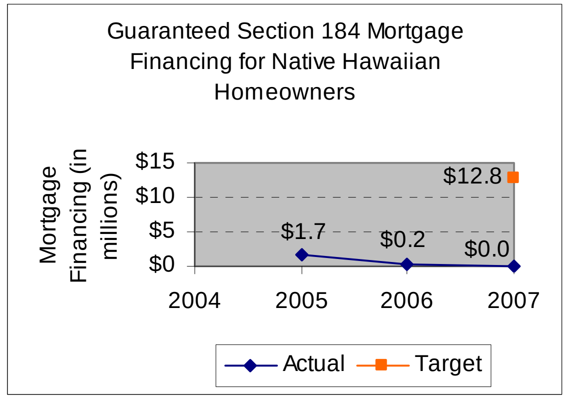
A2.8: Section 184A mortgage financing of $12.8 million is guaranteed for Native Hawaiian homeowners during FY 2007.

Background. This indicator tracks the annual dollar amount of loans guaranteed using the Section 184A Native Hawaiian loan guarantee program. The program will serve a population that, in 2007, had 18,000 families on the waiting list for affordable homes. The program is for families and individuals eligible to reside on Hawaiian Home Lands—land which is held in trust by the State of Hawaii. Lenders have been hesitant to assume the risk of financing homes on trust land, which cannot be used as collateral. The guarantee alleviates this concern and enables eligible families to more easily obtain mortgage financing to purchase a home. This program's activities support the President's and the Department's goal to increase minority homeownership.

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

Results, impact, and analysis. The target was not met, as the program had no activity in FY 2007. In FY 2006 one loan and in FY 2005 10 loans were guaranteed. The reporting period is FY 2007. The Department has established an aggressive FY 2008 goal, which is to guarantee 120 loans, totaling at least $19.2 million.

Resources and performance link. This is a fairly new program, and the program structure is being changed. The program did not utilize resources in FY 2007, but it is projected to involve 120 loans and $19.2 million in loan commitment authority for FY 2008, which is a very substantial performance increase.



Reasons for shortfall/Plans and schedule to meet the goal. The program guaranteed no loans in FY 2007. The program had been set up in FY 2005 for the Department of Hawaiian Home Lands to be the sole institutional borrower; however, this process proved to be too complex and costly. To address the poor performance in FY 2006 and FY 2007, the program was re-engineered during FY 2007 to serve individual homebuyers. Program guidelines for loans to individual native Hawaiians were developed. Lender approval and quality control mechanisms were established. Underwriting and lending criteria that meet the requirements of the Hawaiian Homes Commission Act and Hawaiian Homestead policies were finalized in August 2007. The transition to guaranteeing individual loans was a necessary step to fully and successfully implement the program.

HUD has begun issuing approval letters to eligible lenders in Hawaii. In spite of guaranteeing no loans in FY 2007, the Department's FY 2008 goal is realistic and achievable, because procedures are now in place to serve individual home buyers. The Department of Hawaiian Home Lands expects about 400 new sites to be available for home construction during FY 2008.

Data discussion. The Office of Loan Guarantee compiles data on the dollar amount and the number of loan guarantee certificates issued. The Director of the Office of Loan Guarantee and the PIH Budget Office both validate the data on a monthly basis.

A2.9: Section 184 mortgage financing of $197.3 million is guaranteed for Native American homeowners during FY 2007.

Background. This indicator tracks the annual volume of homeownership loans for Native Americans guaranteed under the Indian Housing Loan Guarantee program, also known as the Section 184 program. Homeownership rates on reservations have been historically low. Because of the unique legal status of reservation lands, lenders have been hesitant to assume the risk of providing mortgage financing for property that cannot be used as collateral. The Indian Housing Loan Guarantee fund provides credit subsidies that support loan guarantees to address this issue. The guaranteed loans can be used to purchase, construct, refinance, or rehabilitate single-family homes on Indian trust or restricted land and in designated Indian areas. The program's activities support the President's and the Department's goal to increase minority homeownership.

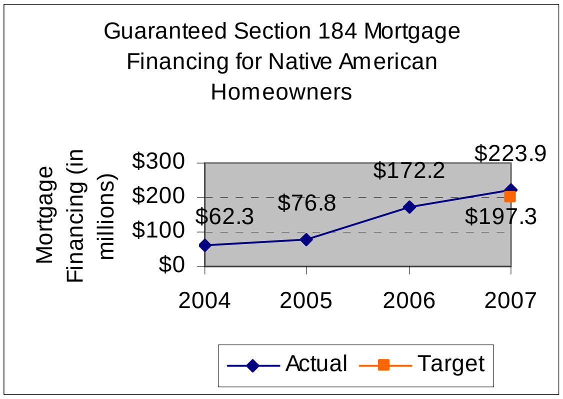
In March 2007, the Annual Performance Plan was amended to increase the goal from $159.6 million to $197.3 million. This increase was due to aggressive marketing and robust program activity.

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

Results, impact, and analysis. The program guaranteed $223.9 million in loans, exceeding the amended target of $197.3 million by more than 13.5 percent, and exceeding the FY 2006 total by almost 30 percent. Program activity and loan volume have increased every year since FY 2002.

The reporting period is the federal FY 2007.

The program has successfully used a team approach to educate tribes and individual Native Americans about the benefits of homeownership. HUD relies on a network of approved lenders to finance mortgage transactions through a public/private partnership. HUD underwrites most of the files, accounting for the consistent performance of the loan portfolio.



The program's goal for FY 2008, is to guarantee 1,500 loans totaling $247.5 million, and maintain a foreclosure rate below one percent.

Resources and performance link. The loan guarantee portfolio has grown from $190 million at the close of FY 2004 to $664.3 million in FY 2007. The program is expending credit subsidy dollars at a record pace each year.

Data discussion. The Office of Loan Guarantee compiles data on the number of loan guarantee certificates issued. The Director of the Office of Loan Guarantee and the PIH Budget Office validate the data on a monthly basis. For the purposes of this indicator, the guarantees are counted when the loans are closed and not when they are approved.

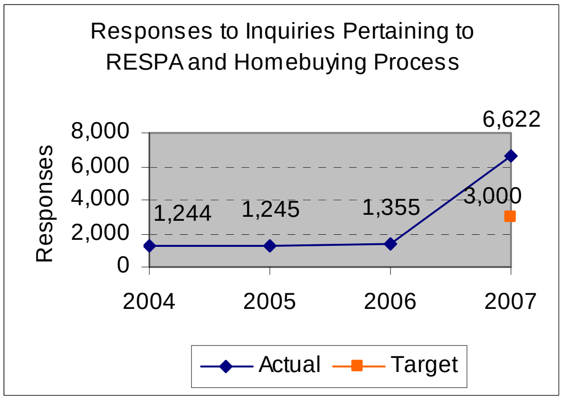
A3 Make the homebuying process less complicated and less expensive

A3.1: Respond to 3,000 inquiries and complaints from consumers and industry regarding the Real Estate Settlement Procedures Act and the home buying and mortgage loan process.

Background. The Real Estate Settlement Procedures Act (RESPA) is a consumer protection statute enforced by HUD involving all mortgage activity. This Act helps consumers be better shoppers in the home buying and mortgage loan process by requiring that consumers receive disclosures at various times in the transactions and by prohibiting practices, such as paying kickbacks that increase the cost of settlement services. The Act also provides consumers with protections relating to the servicing of their loans, including proper escrow account management. The Department currently receives inquiries and complaints from consumers, industry, and other state and federal regulatory agencies by mail, telephone, and e-mail. The FY 2007 goal was to respond to 3,000 of these inquiries and complaints. The Department's responses to the inquiries and complaints received are a measure of its public assistance and enforcement activities.

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

Results, impact, and analysis. The Office of Real Estate Settlement Procedures Act and Interstate Land Sales responded to 6,622 inquiries and complaints during FY 2007. This number exceeds the goal by 121 percent. HUD's Office of Real Estate Settlement Procedures Act and Interstate Land Sales tracks responses to inquiries and complaints regarding the home buying, home financing, and settlement process as well as inquiries from industry and state and federal regulators regarding practices that may violate the Act. The office anticipated that by increasing public awareness of enforcement, an increasing number of consumers, industry, and other regulatory agencies would file complaints alleging violations of the Act. This increased public awareness has helped bring additional violations of the Act to the attention of the Department and enabled the Department to provide greater assistance to the public, particularly consumers.



Resources and performance link. The Office of Real Estate Settlement Procedures Act and Interstate Land Sales responded to 6,622 complaints and inquiries regarding the home buying and mortgage process. These included questions and complaints from industry, consumer, and state and federal regulators regarding practices that violate RESPA. Consumer redress cases returned over one million dollars to consumers who complained about unearned fees, misapplied loan payments, unpaid property taxes, and unpaid insurance premiums. The Office closed twelve formal executed settlement agreements resulting in payments of over five million dollars. Additionally, two agreements were coordinated with state regulatory agencies. In one case, the Department of Justice filed a federal lawsuit on behalf of HUD for violations of the Real Estate Settlement Procedures Act. The Office also was involved in public affairs and outreach by providing training to state and federal regulatory agencies, speaking at industry conferences such as the Real Estate Services Providers Council, Inc. (RESPRO) Conference, the American Association of Residential Mortgage Regulators (AARMR), National Land Council, American Land Title Association (ALTA), American Bankers Association as well as providing information to various news agencies including the Wall Street Journal, the New York Times, Bloomberg News, Chicago Tribune, Washington Post, USA Today, and Salt Lake City Tribune to help increase consumer awareness.

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

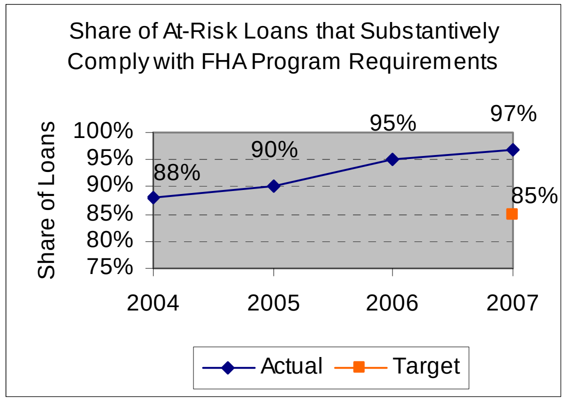
A4 Fight practices that permit predatory lending.

A4.1: FHA increases the percentage of at-risk loans that substantively comply with FHA program requirements.

Background. This indicator tracks efforts to reduce fraud and compliance problems in FHA relative to the number of single family loans reviewed that have material findings. A material finding is defined as a failure to adhere to FHA program requirements pertaining to the origination and/or servicing of mortgage loans that resulted in the indemnification of the loan. Lenders are reviewed on the basis of a target methodology that focuses on high early default and claim rates in addition to other risk factors. Loans that are originated by the lenders are reviewed and then evaluated for material findings. Quality Assurance Division reviews of FHA-approved lenders provide the means of data collection for this performance measure. Due to the oversight and enforcement oriented function performed by the Quality Assurance Division, and the need to maintain objectivity in the Quality Assurance Division review process, a numeric target cannot be established for this performance measure. FHA has therefore elected to track the number of loans reviewed that have material findings as a ratio of loans reviewed as the denominator and loans without material findings as the numerator. The program goal is to have a ratio that exceeds 85 percent.

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

Results, impact, and analysis. Of the 12,813 loans reviewed originated by FHA-approved lenders in FY 2007, 12,406 or 96.8 percent, were determined to have no material findings. The comparison ratio of 96.8 far exceeds the program goal of 85 percent. This outcome indicates that lender monitoring reviews conducted by Quality Assurance Division successfully focuses its monitoring efforts on those lenders that are high and moderate risks, thereby allowing for consistent patterns of risk and material violations to be identified and more effective remedies to be developed. More effective remedies to program violations mean, that FHA's insurance funds remain fiscally sound and in a position to help current homeowners and prospective homebuyers.



Proportion of FHA "At Risk" Loans Found in Compliance

	FY 2004	FY 2005	FY 2006	FY 2007
At-Risk Loans Reviewed	21,442	18,451	15,724	12,813
Loans without Material Findings	18,866	16,565	14,866	12,406
Proportion Complying	0.88	0.90	0.95	0.97

Resources and performance link. FHA and the Office of Single Family Housing administer the 203(b), 234(c) and Home Equity Conversion Mortgage loan products without receiving an appropriation from Congress. The trend for the review of FHA mortgage lenders to ensure accountability and transparency of their lending practices continued to exceed the percentage goal. FHA monitoring and compliance standards continued to reduce fraud and predatory lending practices, which in turn keeps FHA lending funds fiscally sound enabling FHA to serve more people.

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

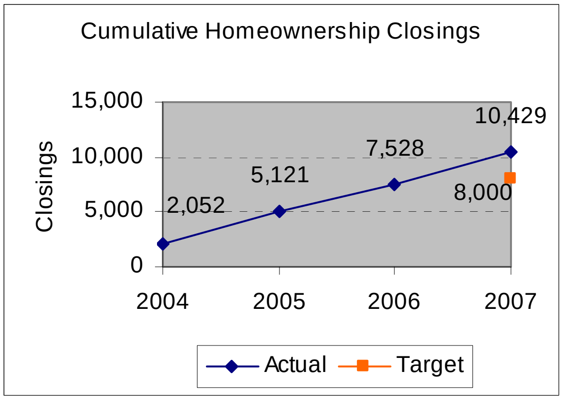
A5 Help HUD-assisted renters become homeowners.

A5.1: Increase the cumulative public and assisted housing homeownership closings under the homeownership option of the Housing Choice Voucher, Family Self Sufficiency, and Moving to Work homeownership programs to 8,000 by the end of FY 2007.

Background. Increasing homeownership among low-income and minority households is one of the Department's most important initiatives. The outcomes associated with this effort are increased homeownership closings and increased resident mobility from rental assistance to homeownership. The homeownership option under the Housing Choice Voucher, Family Self-Sufficiency, and Moving to Work homeownership programs helps accomplish this objective by allowing PHAs to provide assistance to low-income first-time homebuyers for monthly homeownership expenses rather than for monthly rental payments. This indicator tracks the annual number of homeowners assisted. The FY 2007 goal is to increase the cumulative number of homeownership closings to 8,000 households from the FY 2006 goal of 6,000.

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

Results, impact, and analysis. The Department significantly exceeded its goal by helping a cumulative 10,429 households become homeowners through the Housing Choice Voucher, Family Self-Sufficiency and Moving to Work homeownership programs. This is an increase of 2,901 homeownership closings from FY 2006. The success of the homeownership programs is based on an existing administrative fee incentive as well as homeownership program technical assistance designed to provide homeownership program training to PHAs in all of HUDs ten regions. The Department plans to continue its important efforts in this area and expect another significant increase in homeownership closings in FY 2008



Resources and performance link. The Department works toward this goal through an administrative fee incentive and by providing direct technical assistance to PHAs that are interested in exercising a homeownership option or by accelerating the number of homeownership closings under an existing PHA homeownership program. The actual increase achieved in FY 2008 will be affected by several other factors, including PHA capacity building, availability of financing for first-time low- and-moderate-income homebuyers, congressional appropriation of administrative fee funds, market forces, and interest rates.

Data discussion. The data is from the Public and Indian Housing Information Center–50058 module, consisting of household data reported by PHAs. The status of household homeownership closings is a relatively straightforward and easily verifiable statistic. Unfortunately, the long-term success of households to remain homeowners cannot be captured by this measure, nor can it capture mortgage default or property foreclosure data. This would require extensive modifications to the 50058 module.

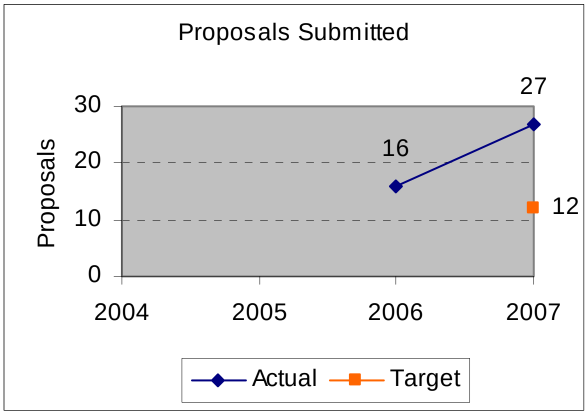
A5.2: HUD works to expand public housing agencies' use of the Section 32 homeownership program, resulting in the submission of 12 proposals in FY 2007.

Background. The Quality Housing and Work Responsibility Act permits PHAs, through Section 32 of the U.S. Housing Act of 1937, to make public housing dwelling units and other units available for purchase by low-income families as their principal residence. This indicator tracks HUD's efforts to expand the use of the Section 32 homeownership program and, thereby, the homeownership opportunities available to public housing residents and other low-income individuals. Under Section 32, a PHA may do the following:

- Sell all or a portion of a public housing development to eligible public or non-public housing residents,
- Provide Capital Fund assistance to public housing families to purchase homes, or
- Provide Capital Fund assistance to acquire homes that will be sold to low-income families.

By expanding awareness of this program, the Department planned to have at least 12 new Section 32 proposals in FY 2007.

Program website: http://www.hud.gov/offices/pih/centers/sac/homeownership/



Results, impact, and analysis. For FY 2007, the Department surpassed its goal by receiving 27 Section 32 homeownership program proposals, 125 percent more than the goal of 12 proposals. This demonstrates PHAs' expanded use of the program and, as a result, an increase in homeownership opportunities. This year's result is an increase from the 16 proposals received in FY 2006 (FY 2006 was the first year this goal was tracked). The fact that the FY 2007 goal was exceeded and there was a significant increase over FY 2006 reflects the popularity of the program and the efforts of HUD staff to raise awareness of and provide technical assistance for the program.

Resources and performance link. The Section 32 homeownership program is not separately funded by appropriations, but permits PHAs, subject to HUD approval, to use their Capital Funds for the homeownership activities described above. Accordingly, the program enables PHAs to make optimal use of their Capital Funds for homeownership purposes.

Data discussion. The data are judged to be reliable for this measure. The data sources are the Inventory Management System and records of the Office of Public Housing Investments, including specifically the Special Applications Center's Assignment Planning System. Special Applications Center staff review and verify data in the Assignment Planning System. Section 32 homeownership proposals are submitted to Office of Public Housing Investments for review and approval. Activities under the program are monitored and verified by the HUD field offices and through the use of the Management Inventory System.

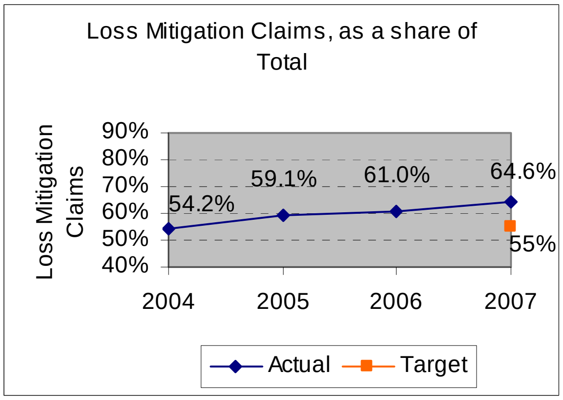
A6 Keep existing homeowners from losing their homes.

A6.1: Loss mitigation claims are 55 percent of total claims on FHA-insured single-family mortgages.

Background. This indicator measures the success of FHA loan servicers in implementing statutorily required loss mitigation techniques when borrowers default on their FHA mortgages. A borrower can resolve a default (90-day delinquency) in several ways short of foreclosure. For example, by paying down the delinquency (cure), by a pre-foreclosure sale with FHA paying an insurance claim in the amount of the shortfall, or by surrendering a deed in lieu of foreclosure. Improved loss mitigation efforts, such as enhanced borrower counseling, help borrowers keep their current homes or permit them to buy another home sooner. Avoidance of foreclosure also reduces FHA's insurance losses, making FHA more financially sound and enabling it to assist more borrowers. For both reasons, by achieving this goal HUD will help increase the overall homeownership rate. The FY 2007 goal is to ensure that at least 55 percent of claims are resolved through loss mitigation.

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

Results, impact, and analysis. The goal was exceeded. In FY 2007, 64.6 percent (91,051 out of 140,849 defaults resolved) of FHA mortgage defaults were resolved through loss mitigation alternatives to foreclosure, exceeding the goal of 55 percent and the performance level of 61 percent achieved in FY 2006. This four percent increase from FY 2006 represents a continuation of increased success. The data used for this calculation were the most recent data available. Loss mitigation does not permanently stabilize many borrowers' financial status.



However, about 60 percent of borrowers who received the benefits of loss mitigation actions remain current on their mortgage for at least a 12 month period. This reduction in foreclosure claim expense is a key component of Departmental budget estimates for FY 2007. Our programmatic objective is to sustain the high level of participation in loss mitigation even as the Office of Housing tightens programmatic requirements designed to increase the ultimate success rate of loss mitigation in helping borrowers avoid foreclosure.

Resources and performance link. FHA and the Office of Single Family Housing track this goal without a direct appropriation from Congress. This goal seeks alternative actions to foreclosures in the event of borrower default on a loan. Loss mitigation tools seek the best alternative for the homeowner to prevent foreclosure on the property. Loss mitigation techniques limits losses to the FHA fund which in turn enables FHA to assist additional people. Default rates for mortgage loans continued to rise due to rising interest rates and slowing housing market. During FY 2007 FHA continued the trend to increase the proportion of mortgagors with troubled mortgages who were able to resolve their mortgage defaults rather than going through foreclosure. Through techniques, such as home retention tools, pre-foreclosure sales, deeds-in-lieu, and housing counseling services more defaults were resolved and fewer homeowners lost their homes.

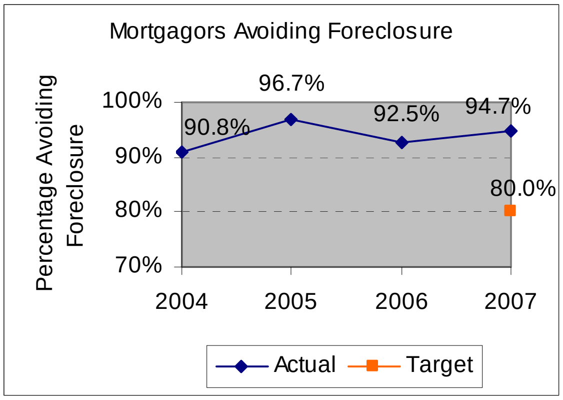
Data discussion: The data originate in the Single Family Insurance, CLAIMS subsystem (CLAIMS A43C), and for convenience are reported from FHA's Single Family Enterprise Data Warehouse Loss Mitigation table. The resolutions that are counted as loss mitigation are forbearance agreements, loan modifications, partial claims, pre-foreclosure sales, and deeds-in-lieu of foreclosure. Total claims comprise loss mitigation claims plus conveyance claims. No data limitations are known to affect this indicator. An independent assessment in 2004 showed that CLAIMS performance indicator data passed six-sigma quality tests for validity, completeness, and consistency. FHA data are entered by the loan servicers with monitoring by FHA. The results reported for this performance indicator are consistent with those reported in the FHA Management Report for FY 2007. FHA now collects 30 and 60 day default data, which provides better information about typical default patterns and insight towards improving loss mitigation efforts.

A6.2: More than 80 percent of total mortgagors seeking help with resolving or preventing mortgage delinquency will successfully avoid foreclosure.

Background. The FY 2007 performance goal is to ensure that more than 80 percent of total mortgagors seeking help with resolving or preventing mortgage delinquency successfully avoid foreclosure. Clients tracked through this indicator include homeowners with mortgages who are at risk of default or have already defaulted, and are seeking assistance in order to remain in their home and meet the responsibilities of homeownership. This target was revised in the FY 2008 APP, Appendix A, to incorporate a new methodology for calculating fiscal year performance. Under the new methodology, clients previously counted as "currently receiving counseling" are now excluded. Removing these cases will provide more accurate results on the success of the clients in preventing mortgage delinquency. By offering alternatives to delinquency and foreclosure, default counseling is a cost-effective way to reduce HUD's exposure to risk while contributing to the important outcome of aiding growth and stability of families and communities across the country. Moreover, default counseling is increasingly important when targeted towards areas with higher unemployment or markets experiencing changing home prices and other market dislocations.

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

Results, impact, and analysis. HUD expects to exceed this goal, although final results for clients counseled in FY 2007 could not be fully assessed by the date of this publication. However, reporting results from the first three quarters of calendar year 2007 indicate that 94.7 percent of total mortgagors seeking help with resolving or preventing mortgage delinquency will have successfully avoided foreclosure. This calendar year 2007, third quarter reporting represents results of 12,024 out of 12,690 mortgagors receiving assistance. These results indicate that HUD is ahead of the target to reach the FY 2007 goal of 80 percent in default counseling and loss mitigation tools and techniques, and the increased training of counselors from HUD approved agencies. HUD approved counseling agencies are given 90 days after the end of the calendar year to report the results of counseling activity for that fiscal year and to submit requests to HUD for reimbursement for counseling services provided.



Resources and performance link. FHA and the Office of Single Family Housing sponsor 2,300 approved housing counseling agencies throughout the country that can provide advice on buying a home, renting, defaults, foreclosures, credit issues, and reverse mortgages to clients at a low or minimal cost. Funding in FY 2007 of $41.6 million was provided to housing counseling agencies to provide counseling services. The FY 2007 appropriation, which was the same as the FY 2006 appropriation compares to the President's FY 2008 budget request of $50 million. In the wake of the sub prime market collapse and record setting foreclosures the housing market is as complex and dynamic as ever. People more than ever need housing counseling services to appropriately resolve housing situations and have a trusted source that they can approach with housing related questions.

Data discussion. The data source for this performance indicator is the Housing Counseling System (HCS –F11) based on information submitted through Housing Counseling Agency Fiscal Year Activity Reports. The data include total number of clients, the type of counseling received, and the results of the counseling. An independent assessment in 2005 showed that the Housing Counseling System performance indicator data passed six-sigma quality tests for validity, completeness, and consistency. One limitation of the data is that mortgagors can, and often do, go in and out of default. Consequently, a mortgagor whose counseling outcome was recorded as "reinstated" in a given year could actually result in "foreclosure" in another year. In an effort to further improve its ability to collect detailed information about the families and individuals seeking help with resolving or preventing mortgage delinquency, among other data, the Department implemented an automated data collection instrument that will enable it to collect client-level information beginning in FY 2008.

Goal B: Promote Decent Affordable Housing

Strategic Objectives:

B1 **Expand access to affordable rental housing.**

B2 **Improve the physical quality and management accountability of public and assisted housing.**

B3 **Increase housing opportunities for the elderly and persons with disabilities.**

B4 **Transition families from HUD-assisted housing to self sufficiency.**

B5 **Facilitate more effective delivery of affordable housing by reforming public housing and the Housing Choice Voucher program.**

PERFORMANCE REPORT CARD – GOAL B

	Performance Indicators	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2007 Target	Met	Notes
B1	**Expand access to affordable rental housing.**							
B1.1	The number of households with worst case housing needs among families with children, the elderly, and non-elderly person with disabilities.							a,b,c
	Families with children	N/A	2,324	N/A	N/A	N/A	N/A	j
	Elderly	N/A	1,291	N/A	N/A	N/A	N/A	j
	Persons with disabilities	N/A	542	N/A	N/A	N/A	N/A	j
B1.2	The net number of years of affordability remaining for all HOME Investment Partnership Program assisted units is maximized.	64	980	1,063	1,244	1,150	✔	j
B1.3	The number of rental assisted households and rental housing units with CDBG, HOME, Housing Opportunities for Persons With AIDS, Indian Housing Block Grant and Native Hawaiian Housing Block Grant.	143,424	157,733	177,757	141,787	135,929	✔	
B1.4	FHA endorses at least 1,000 multifamily mortgages.	1,497	1,017	1,016	881	1,000	✘	
B1.5	Ginnie Mae securitizes at least 95 percent of eligible FHA multifamily mortgages.	92.4%	91.1%	96.9%	98%	95%	✔	

PERFORMANCE REPORT CARD – GOAL B

	Performance Indicators	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2007 Target	Met	Notes
B1.6	HUD will complete 80 percent of the initial FY 2007 Mark-to-Market pipeline during the fiscal year, reducing rents and restructuring mortgages where appropriate.	72%	82%	86%	92%	80%	✓	
B1.7	HUD will continue to monitor and enforce Fannie Mae's and Freddie Mac's performance in meeting or surpassing HUD-defined targets for special affordable multifamily mortgage purchases.							
	Fannie Mae	$12.23	$7.32	$10.39	$13.31	$5.49	✓	f,l
	Freddie Mac	$8.79	$7.77	$12.35	$13.58	$3.92	✓	f,l
B1.8	At least 70 percent of clients receiving rental or homeless counseling either find suitable housing or receive social service assistance to improve their housing situation.	72.9%	75.0%	71.5%	70.1%	70.0%	✓	d,i
B1.9	Reduce energy costs in building or operating HUD-financed, assisted, or insured housing.				$33	N/A	N/A	c
B1.10	Improve the utilization rate of Housing Choice Voucher funding to 97 percent by FY 2011.	100%	97%	90%	93%	N/A	N/A	c, n
B2	**Improve the physical quality and management accountability of public and assisted housing.**							
B2.1	Reduce the average number of observed exigent deficiencies per property for substandard multifamily housing properties by 10 percent.			7.6	3.2	6.84	✓	
B2.2	The share of public housing units that meet HUD established physical inspection standards will be 85 percent	85.0%	85.1%	85.8%	85.7%	85%	✓	
B2.3	The share of assisted and insured privately-owned multifamily properties that meet HUD established physical standards are maintained at no less than 95 percent.	94.4%	96.0%	95.0%	93.8%	95.0%	✗	

PERFORMANCE REPORT CARD – GOAL B

	Performance Indicators	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2007 Target	Met	Notes
B2.4	Key measures under the Public Housing Assessment System including (a) the unit-weighted average score, (b) observed exigent deficiencies per property among PHAs that are designed as troubled and have five or more deficiencies per property for public housing and (c) the share of units that have functioning smoke detectors.							
	Unit weighted average score	86.9%	85.8%	85.0%	85.2%	N/A	N/A	c
	Observed exigent deficiencies per property			54%	58%	N/A	N/A	c
	Share of units with functioning smoke detectors	92.8%	92.9%	93.6%	93.4%	N/A	N/A	c
B2.5	For households living in assisted and insured privately-owned multifamily properties, the share of properties that meets HUD's financial management compliance is maintained at no less than 98 percent	98%	98%	98%	99%	98%	✓	
B2.6	The percent of public housing units under management of troubled housing agencies.	43.5%	33.0%	31.0%	33.9%	N/A	N/A	c,g
B2.7	The proportion of the Housing Choice Voucher Program funding administered by troubled housing agencies.			6.1%	4.5%	N/A	N/A	c,g
B2.8	The HOPE VI Revitalization program for public housing relocates 1,378 households, demolishes 4,209 units, completes 8,745 new and rehabilitated units, and occupies 8,293 units.							
	Households relocated	4,618	4,702	4,049	3,685	1,378	✓	m
	Units demolished	4,919	8,765	5,034	6,601	4,209	✓	m
	Units constructed or rehabilitated	4,132	9,632	9,389	8,436	8,745	✗	m
	Units occupied	4,210	8,467	10,995	7,793	8,293	✗	m
B2.9	Ensure the unit production of HOPE VI projects is completed within 7.75 years from the grant agreement execution, and unit production will be completed for 75 HOPE VI grants awarded from FY 1993 through FY 2004							
	Completion years.				7.31	7.75	✓	
	Grants for which unit production is completed				76	75	✓	

PERFORMANCE REPORT CARD – GOAL B

	Performance Indicators	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2007 Target	Met	Notes
B2.10	The HOPE VI program will leverage $650 million of other financing.	$878	$945	$862	$669	$650	✔	k
B2.11	Approve $50 million of leveraged funds through the Capital Fund Financing program.				$191	$50	✔	k
B2.12	In FY 2007, HUD will award 35 grants to establish new, or expand existing, Public Housing Neighborhood Networks centers.				54	35	✔	
B3	**Increase housing opportunities for the elderly and persons with disabilities.**							
B3.1	Increase the availability of affordable housing for the elderly and persons with disabilities by bringing 200 projects to initial closing under Sections 202 and 811.	305	302	315	245	200	✔	
B3.2	The number of elderly households living in private assisted housing developments served by a service coordinator is maintained at the FY 2006 level.				352.8	139.1	✔	j,g
B4	**Transition families from HUD-assisted housing to self sufficiency.**							
B4.1	By FY 2008, increase the proportion of those who transition from HUD's public housing and Housing Choice Voucher programs by 20 percent and decrease the proportion of active participants who have been in HUD's housing assistance programs for 10 years or more by 10 percent.							
	Proportion of participants who transition from program	N/A	12.8%	12.6%	14.2%	12.9%	✔	g
	Proportion of participants in program for 10 years or more	N/A	19.2%	20.9%	21.2%	19.0%	✘	g
B4.2	The number of residents counseled through the Resident Opportunity and Self Sufficiency (ROSS) program in homeownership readiness will increase by 295, and the number of counseled residents who purchased homes will increase by 26 during FY 2007.							
	Residents counseled through ROSS in homeownership readiness				2,586	295	✔	
	Residents counseled through ROSS who purchase homes				286	26	✔	

PERFORMANCE REPORT CARD – GOAL B

	Performance Indicators	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2007 Target	Met	Notes
B5	**Facilitate more effective delivery of affordable housing by reforming public housing and the Housing Choice Voucher program.**							
B5.1	Complete analysis of Section 8 and public housing assessment programs and develop a more accurate and efficient assessment tool.				Complete	Complete	✔	
B5.2	Asset-based accounting will be implemented in 20 percent of PHAs by FY 2007				30%	20%	✔	

Notes:
- a Data not available.
- b No performance goal for this fiscal year.
- c Tracking indicator.
- d Third quarter of calendar year (last quarter of fiscal year; not the entire fiscal year).
- e Calendar year beginning during the fiscal year shown.
- f Calendar year ending during the fiscal year shown.
- g Result too complex to summarize. See indicator.
- h Baseline newly established.
- i Result is estimated.
- j Number is in thousands.
- k Number reported in millions.
- l Number reported in billions.
- m For one year period ending June 30, 2007
- n First half of calendar year
- o One-year lag in data

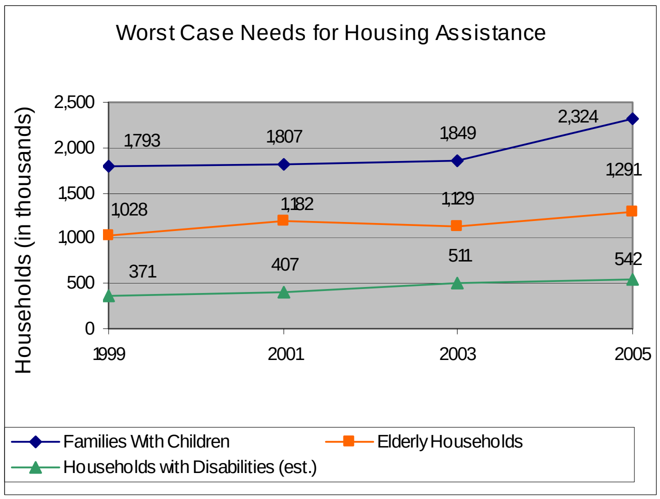
B1 Expand access to affordable rental housing.

B1.1: The number of households with worst case housing needs among families with children, the elderly, and non-elderly persons with disabilities.

Background. This tracking indicator is a key measure of whether HUD's array of targeted housing programs and the nation are advancing or losing ground in the fight to ensure decent, safe, and affordable housing for America's families. The indicator focuses on the elderly, non-elderly disabled persons, and families with children because they are particularly susceptible to housing problems and are targeted by HUD housing programs. Worst case needs are defined as unassisted renters with very low incomes (that is, not more than 50 percent of area median income) and a priority housing problem—either severely inadequate housing or, more commonly, severe housing cost burden, meaning total costs exceed 50 percent of monthly income.

Program website. The 2005 results are reported in "Affordable Housing Needs 2005: Report to Congress," available at http://www.huduser.org/publications/affhsg/affhsgneeds.html.

Results, impact, and analysis. The most recent published tracking data show that in calendar year 2005, 2.32 million families with children had worst case housing needs and 1.29 million elderly households had worst case needs. These estimates reflect statistically significant and substantial increases of 26 percent and 14 percent from 2003 levels. For households with disabilities, the data do not support precise estimates, but the estimate shows an insignificant increase from 0.51 million households in 2003 to 0.54 million households in 2005. The estimate for households with disabilities is known to under-represent the true figure.



National and regional economic conditions affect worst case needs by changing the number of very low-income renters (that is, households eligible for worst case status if unassisted) and the availability of affordable private-market rental units. Between 2003 and 2005, the number of very low-income renters increased by 2.6 percent, from 15.7 million to 16.1 million. However, the subset of these renters who have extremely low-incomes increased by 6.6 percent, from 9.1 million to 9.7 million. There was a net decrease in renters with incomes of 30 to 50 percent of area median, caused primarily by moves to lower or higher income categories, as well as home purchases by a small fraction.

Lack of affordable housing units relative to the growing number of units demanded by very low- and extremely low-income households is a central aspect of the problem: for every 100 very low-income renter households in 2005, there were only 76.8 rental units that were affordable and available. When adequate, physical quality is added to the affordable and available dimensions only 67.9 units were available per 100 households.

Resources and performance link. The largest portion of HUD's budget, estimated at $25.43 billion in FY 2007, program funds (66 percent of the total budget), helps program partners meet the affordable housing needs of very low-income renters. Contributing programs include vouchers, project-based Section 8, public housing, HOME Investment Partnerships program, CDBG, Housing Opportunities for Persons With AIDS, homeless programs, multifamily mortgage insurance, and capital advances for supportive housing under Sections 202 and 811. HUD has multiple programs that provide affordable housing opportunities for targeted income groups and subpopulation including elderly, disabled, and homeless. Although recent funding levels for these programs have not supported expanded coverage, collectively they produce a critical outcome; keeping many of the nearly five million households served out of worst case status (see the table "Units/Households Receiving HUD Assistance" in Section 4 of this report and resource discussion below).

Data discussion. The data for this indicator come from the national American Housing Survey, conducted for HUD by the Census Bureau on a biennial basis. Calendar year 2007 data will be published during 2008. Estimates of households containing non-elderly persons with disabilities are based on HUD's tabulation of households that reported receiving Supplemental Security Income. Analysts currently are reviewing the potential of supplemental data sources to provide more accurate estimates of worst case needs among households with disabilities.

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

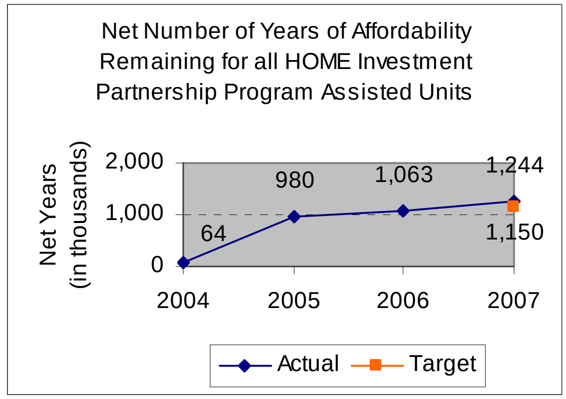
B1.2: The net number of years of affordability remaining for all HOME Investment Partnerships program-assisted units is maximized.

Background. This outcome indicator tracks the net number of years of affordability produced for low income households residing in units developed through the investment of the HOME funds. Rental and homebuyer units produced with HOME funds must remain affordable to low-income households for a minimum of five and for as many as 20 years – depending upon the amount of the HOME investment. These restrictions are imposed through covenants running with the land, deed, rent, and other restrictions that HUD may agree to. The net number of years of affordability remaining at any point in time is calculated by multiplying the number of units assisted by the remaining number of years of affordability attached to those units. The greater the number of years a unit remains affordable, the greater the rent stability for low-income households and, as a consequence, the greater the likelihood that their disposable income for non-rent expenses will increase.

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

Results, impact, and analysis. At the end of FY 2007, the goal was met, with the net number of years of affordability remaining for all HOME-assisted units reaching 1,243,613, exceeding the goal of 1.15 million by 93,613 or eight percent. This also exceeds the net 1,062,775 unit years of affordability achieved by HOME in FY 2006 by 180,838 or 17 percent.

The improvement in FY 2007 was a direct function of the large number of HOME-assisted units, both homebuyer and rental, that were placed under HOME affordability restrictions this year.



Resources and performance link. The years of affordability is a direct consequence of the amount of HOME funding appropriated. The decrease in HOME Investment Partnerships program funding in recent years has an overall effect of less affordable housing units being produced.

However, during FY 2006 and FY 2007, grantees entered more unit completion data to meet the performance measurement requirements that went into effect October 1, 2006.

Data discussion. Data for the HOME Investment Partnerships program are reported in HUD's Integrated Disbursement and Information System. As of FY 2007, the Department required new outcome performance measures in the system, including several new measures for HOME. Data entered by participating jurisdictions in HUD's Integrated Disbursement and Information System are used to track quarterly performance.

B1.3: The number of rental households and rental housing units assisted with CDBG, HOME Investment Partnerships, Housing Opportunities for Persons With AIDS, and Indian Housing Block Grants.

Background. This indicator tracks rental housing assistance—including rehabilitation of rental housing units—provided through the CDBG, HOME Investment Partnerships, Housing Opportunities for Persons with AIDS, and the Indian Housing Block Grant program. These programs also help reduce the number of households with worst-case housing needs (very low-income households who pay more than half of their incomes for housing or who live in substandard housing). Because of shortages of affordable rental housing and the need to maintain existing housing units, it is desirable to increase the number of households aided with housing assistance, including through rental housing production. The level of these housing outputs is subject to appropriations as well as economic conditions and local discretion

CDBG program grantees conduct housing rehabilitation projects of all sizes, ranging from small weatherization improvements and emergency repairs to the rehabilitation of major household systems, such as roofing, heating, and siding.

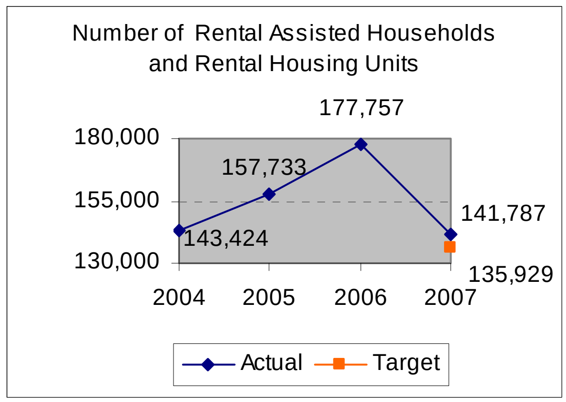
The HOME Investment Partnerships program is one of HUD's major affordable housing production programs. This program's block grant structure enables participating state and local governments to build or rehabilitate housing for rent or ownership, provide home purchase or rehabilitation financing assistance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

The Housing Opportunities for Persons With AIDS program provides local and state government and nonprofit organizations with the resources and incentives to develop long-term comprehensive housing strategies for meeting the housing and related supportive service needs of low-income persons living with HIV/AIDS and their families. The program supports the goals of increasing the availability of decent, safe, and affordable housing in America's communities by providing permanent housing with coordinated supportive services through tenant-based rental assistance, short-term rent, mortgage or utility payments that help maintain the current residence of beneficiaries, and support for community facilities that provide residential care and other needed support.

The Indian Housing Block Grant program provides formula-based grants to federally recognized Indian tribes, or their tribally designated housing entities. This indicator tracks the number of affordable rental units that were built, acquired, or rehabilitated with grant funds. These activities support the Department's strategic objective of expanding access to and availability of decent, affordable rental housing.

Program website. http://www.hud.gov/offices/cpd/communitydevelopment/programs/
http://www.hud.gov/homeprogram/
http://www.hud.gov/offices/cpd/aidshousing/index.cfm
http://www.hud.gov/offices/pih/ih/grants/ihbg.cfm

Results, impact, and analysis. The FY 2007 goals were exceeded for the HOME Investment Partnerships and Housing Opportunities for Persons With AIDS, but were not met for CDBG or the Indian Housing Block Grant programs.



CDBG The FY 2007 goal for CDBG was 37,032 units of renter-occupied housing assistance while the actual number of units assisted was 26,358. The shortfall was 10,674 units. The FY 2006 actual level was 38,172 units assisted.

HOME Investment Partnerships Program exceeded its goals for both rental housing production and tenant-based rental assistance in FY 2007. HOME participating jurisdictions completed 28,039 rental housing units in FY 2007, exceeding the goal of 20,698 units by 7,341 units or 35 percent. The FY 2007 performance represents a decrease of 19,559 units from the 47,598 units completed in FY 2006, which is explained in part by updated data reporting in FY 2006.

The 18,172 households assisted with HOME-funded tenant-based rental assistance in FY 2007 exceeded the goal of 9,779 by 8,393 households or 86 percent. The anticipated decline in the number of households receiving Tenant Based Rental Assistance through HOME did not materialize. However, this represents a decrease of 5,153 households from the FY 2006 result. (For a discussion of HOME assistance to homebuyers and existing homeowners in FY 2007, see Indicator A1.9.) FY 2006 production levels were much higher than normal as a result of grantees rushing to enter completion data prior to start of the FY 2007 fiscal year in order to avoid the data entry requirements associated with the new performance measurement requirements that went into effect on October 1, 2006.

Housing Opportunities for Persons With AIDS The FY 2007 target for the Housing Opportunities for Persons With AIDS program was 67,000 households assisted. For this performance year, Housing Opportunities for Persons With AIDS provided support to 67,850 households, exceeding the goal by 850 households. The program has shown significant results through housing support that improves the client's stable or temporary arrangements that provide a base to access and consistently participate in health care and other support, as needed. HUD has compiled Housing Opportunities for Persons With AIDS performance data from all grantees. The data indicate that 67,850 households were assisted with housing assistance that improved the affordability of their housing arrangements or were provided appropriate care in residence in housing facilities. This is consistent with HOPWA's performance goal of increasing housing stability coupled with grantees placing greater emphasis on permanent housing and assessing short-term housing intervention to determine long-term client outcomes. During the past year, all Housing Opportunities for Persons With AIDS grantees have begun reporting on client outcomes through the revised annual performance reporting requirements. Grantees have implemented the housing stability performance outcome measure. Significant progress has been made on data verification to ensure that grantees are providing quantitative data that effectively reports on client outcomes.

Indian Housing Block Grant. The goal to build, acquire, or rehabilitate 1,420 rental units was not met. The actual accomplishment, 1,368, is about 3.5 percent short of the goal, and about two percent less than what was reported at the same time one year ago for FY 2006.

Each year, the Performance Tracking Database is updated to correct errors and to add data from grantees who submitted late reports. The results reported in the annual Performance and Accountability Report must be revised each year as well, to reflect the most current data. Revised accomplishments, as of October 2007, are as follows: In FY 2004, 2,222 rental units were built, acquired, or rehabilitated. In FY 2005, the total was 1,637; in FY 2006, 1,656. It is likely that the FY 2007 accomplishment (1,368), will also be subject to change once corrections and late submissions are reported. Accomplishments vary because each grantee, not HUD, identifies the activities it will carry out with its block grant funds.

Grantees must report annually, no later than 90 days after their program year ends. The results reported herein include the most recent grantee fiscal year report received.

With ever-rising construction costs and the level of program funding remaining relatively flat for the last three years, HUD cannot anticipate increased production for this indicator.

Rental Households/Rental Units Receiving Assistance	2004	2005	2006	2007	2007 goal
CDBG (rental units rehabilitated)	31,186	34,918	38,178	26,358	37,032
HOME (tenant-based assistance)	15,479	20,554	23,325	18,172	9,779
HOME (rental units completed)	23,392	33,612	47,598	28,039	20,698
Housing Opportunities for Persons With AIDS	71,145	67,012	67,000	67,850	67,000
Indian Housing Block Grant	2,222*	1,637*	1,656*	1,368	1,420

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

Resources and performance link. ***CDBG*** Local governments receive formula CDBG funds either directly from HUD or through states. Local governments and states develop plans and priorities for expenditure of CDBG funds through CPD's consolidated planning process. The number of units assisted is primarily a function of grantee funding decisions and local level implementation. CDBG expenditure data as reported in the Integrated Disbursement and Information System indicates that grantees expended approximately $89 million annually on multi-unit rehabilitation in FY 2007 and FY 2006, down from $102 million on multi-unit rehabilitation in FY 2005.

HOME Investment Partnerships Program The FY 2007 goals within this indicator reflect a decrease from the FY 2006 levels due to the effects of inflation on housing production—calculated at three percent annually—together with the reduction in HOME Investment Partnerships program funding in recent years.
Based on completions, the average per-unit HOME cost of producing a rental unit in FY 2007 increased by $836 to $23,672, or 3.7 percent, compared to FY 2006, while the annual cost of providing tenant-based rental assistance to a household increased to $2,895 in FY 2007, an increase of $31 or one percent. Participating jurisdictions disbursed approximately $896 million in HOME funds on completed rental projects and committed $56.9 million to tenant-based rental assistance during FY 2007.

The Housing Opportunities for Persons With AIDS program is achieving its goals, including meeting the Housing Opportunities for Persons With AIDS share of the target for housing outputs in providing support to 67,850 households in this performance year. The program has shown significant results through housing support that improves the client's stable or temporary arrangements that provide a base to access and consistently participate in health care and other support, as needed. HUD has compiled Housing Opportunities for Persons With AIDS performance data from all grantees. The data indicate that 67,850 households were assisted with housing assistance that improved the affordability of their housing arrangements or provided appropriate care in residence in housing facilities Housing Opportunities for Persons With AIDS efforts continue to show cost effectiveness with average costs per household, at $4,320 annually, below costs for other types of housing assistance efforts.

Indian Housing Block Grant For many American Indian tribes and Alaska Native villages, the Block Grant program is the sole source or the main source of funding for affordable housing. However, affordable housing projects in Indian Country tend to be long-term, and HUD has not observed performance levels immediately corresponding to changes in funding levels. Nevertheless, such corresponding changes would be inevitable over a course of several years. Small tribes in remote locations often stretch construction and rehabilitation projects over several funding years, and only report on accomplishments in the year that projects are completed. In addition to providing or rehabilitating homes, recipients can offer other housing services to their low-income beneficiaries. Transitional housing, crime prevention and safety activities, housing management services, and counseling also consume program funds, and grantees have the flexibility to use grant funds for whichever eligible activity is currently needed in their community. Therefore, it has proven difficult to predict the number of rental units that will be built, acquired, and rehabilitated in any given year. However, this measure is a primary indicator of program output. Targets have been based on relatively flat funding and annual trend data.

Reasons for shortfall/Plans and schedule to meet the goal. ***CDBG*** There is no evident reason for the shortfall in the number of CDBG-assisted units in FY 2007, and a thorough analysis will likely take several months. Potential contributing factors may include increased per unit costs, initiation of fewer multi-unit rehabilitation activities by grantees, and lack of complete reporting by grantees. Further, FY 2006 accomplishment levels were likely elevated by joint HUD and grantee effort to close out older activities in advance of full implementation of performance measurement framework on October 1, 2006. The Office of Block Grant Assistance's plan of action will be guided by the data analysis and discussions with grantees.

Indian Housing Block Grant. The shortfall for this indicator was relatively minor.

Data Discussion. ***CDBG*** values in this table are based on historical accomplishments reported by grantees in the Integrated Disbursement and Information System. CPD has pursued a variety of enhancements to the systems that, along with data clean-up efforts, have resulted in a continuous improvement in data quality. CPD field staff often verify program data when monitoring grantees.

Data for the ***HOME Investment Partnerships program*** are reported in HUD's Integrated Disbursement and Information System. For FY 2007 participating jurisdictions were required to enter the outcome performance measures data into HUD's Integrated Disbursement and Information System. Data entered by participating jurisdictions are used to track quarterly performance.

Housing Opportunities for Persons With AIDS data verification is an ongoing effort to supplement performance data available through Integrated Disbursement and Information System, which, pending enhancements and improved functionality, remains characterized by incomplete or inaccurate data, requiring further validation. Technical support continues to be provided for data verification, including identification of corrections and training on other program elements to improve completeness and accuracy, and significant progress is being demonstrated by grantees in data verification. Clearance of edits to reporting forms, and pending enhancements in Integrated Disbursement and Information System, are expected to be implemented in 2008 that will further enhance reporting and demonstrate achievements.

Indian Housing Block Grant Indian Housing Block Grant data come from more than 500 recipients through Annual Performance Reports. The data are captured in the Performance Tracking Databases of each area Office of Native American Programs and then aggregated into a national database at Headquarters. Because Indian Housing Block Grant recipients have 90 days after their fiscal year ends to report, recipients whose fiscal years end after June 30 report in the next federal fiscal year. Accomplishments of the Indian Housing Block Grant program that are reported in this document will likely require future revisions because it is expected that some grantees will report late and because some adjustments are typically made later in the year to correct previous submissions. The Office of Native American Programs continually monitors the functionality of the database and has emphasized to grantees the importance of correct and timely reporting.

B1.4: FHA endorses at least 1,000 multifamily mortgages.

Background. Maintaining FHA multifamily volume will help fulfill the outcome goal of making more decent rental housing available to consumers at a modest cost. This indicator measures FHA's annual output of initial multifamily endorsements.

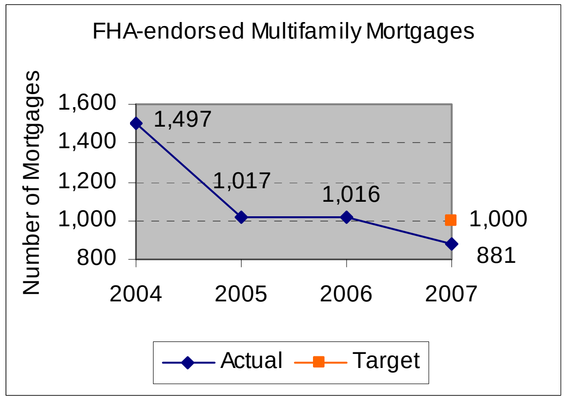
FHA brings stability to the mortgage market for multifamily housing and is especially important for a number of crucial but higher-risk entities, including small builders, buyers or owners of aging inner-city properties, and nonprofit sponsors. FHA's unique and valuable products include insurance that covers both the construction financing and long-term permanent financing of modest-cost rental housing, insurance for assisted living facilities, and a vehicle to help lenders obtain the benefits of Ginnie Mae securitization.

Many conventional multifamily loans that otherwise would have gone into default as they reached maturity during the credit crunch of the early 1990s were successfully refinanced with FHA. FHA also retains a leadership position in the market for high loan-to-value and long-term fully amortizing multifamily loans, which can help in the provision of affordable rental housing.

In FY 2008, the Department will maintain its FY 2007 goal level of 1,000 initial endorsements.

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

Results, impact, and analysis. The target was not met. During FY 2007, Multifamily Development initially endorsed 881 FHA and Risk Sharing loans—only 88 percent of the FY 2007 goal of 1,000 loans. While production fell slightly short of the 1,000 loan goal, the 881 loans still represent a significant achievement in the face of a very weak housing market.



The result of 881 is 13 percent less than both the 1,016 loans endorsed in FY 2006 and the 1,017 loans endorsed in FY 2005. The 881 loans provided 90,614 units/beds in 48 states, the District of Columbia and Puerto Rico and three FHA programs remained strong or increased. FHA endorsed 104 loans for new construction/ substantial rehab of apartments – the same number FHA endorsed in FY 2006. Construction of assisted living facilities tripled, jumping from five loans in FY 2006 to 16 loans in FY 2007. And, 223f loans for purchase/refinancing of apartments remained our largest program as FHA endorsed 355 loans, just slightly less than FY 2006's 365 loans.

In FY 2008, this goal will remain at 1,000 endorsements. Endorsing 1,000 loans will be difficult, but Development will strive towards it. FHA loan volumes could improve if recent efforts to control interest rates continue and if the general housing market recovers.

Resources and performance link. The FHA insurance programs are measured in terms of insurance rather than program budget authority. In FY 2007, the Office of Multifamily Housing had endorsements of $4.9 billion and insurance-in-force totaling $56.3 billion. Multifamily mortgage insurance endorsements are inherently unpredictable and hinged on the confluence of myriad uncontrollable economic factors.

While Development's overall FY 2007 staff levels were about the same as in FY 2006, and production fell primarily because of the market conditions noted below, spot shortages of technical skills (e.g., appraisal, mortgage credit, etc) essential to efficient underwriting are appearing as Development staff retire and these shortages could cause processing delays and discourage borrowers from choosing FHA. To avoid such delays, Development is encouraging work sharing across geographically linked offices. Development is also exploring options for centralizing some programs (e.g., health care loans) within selected geographically linked offices. Multifamily Housing is focused on these staff shortages and is working to address critical vacancies.

Reasons for shortfall/ Plans and schedule to meet goal. Because HUD's FHA and Risk Sharing programs offer only market-rate loans, FHA production levels are determined primarily by market forces (interest rates, demographics, construction, land, and operating costs). Initial Endorsements were down because heavy refinancing activity in FY 2005 and FY 2006 reduced the number of loans available for refinancing and increases in market interest rates reduced demand for additional refinancing and for nursing home construction loans. To attract more borrowers and lenders in this soft market, development will work with industry and field staff to identify ways in which FHA and risk sharing programs can be streamlined and made even more attractive than they already are. While market forces will still be the main determinants of volume, efficient processing and streamlined application requirements could bring HUD an increased portion of the reduced market demand.

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

B1.5: Ginnie Mae securitizes at least 95 percent of eligible FHA Multifamily mortgages.

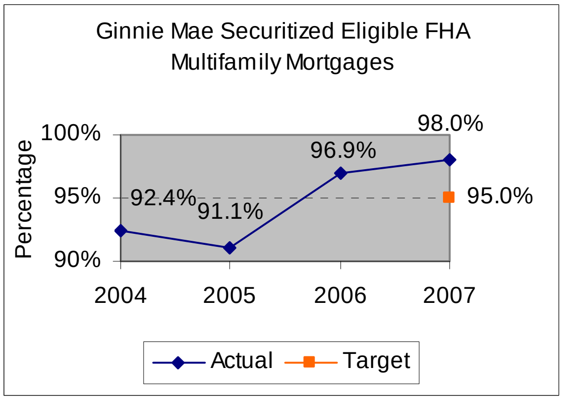
Background. This indicator measures Ginnie Mae's share of the residential mortgage loans insured or guaranteed by the Federal Housing Administration. As articulated in Title III of the National Housing Act, Ginnie Mae's purpose is "to establish secondary market facilities for residential mortgages, to provide that the operations thereof shall be financed by private capital to the maximum extent feasible," and to conduct certain other secondary market functions consistent with this purpose. Ginnie Mae was authorized to guarantee securities backed by government insured loans when it was established as a government corporation on September 1, 1968. Since 1970, when it pioneered the mortgage-backed pass-through security, Ginnie Mae has guaranteed over $2.6 trillion in securities.

Ginnie Mae continues to address the specific need of promoting liquidity and the flow of investment capital for FHA multifamily mortgages. The total amount of Ginnie Mae securities outstanding have increased every month since mid-2006. At the end of FY 2007, the amount of Ginnie Mae securities outstanding was approximately $427.6 billion, of which multifamily program securities outstanding were $38.4 billion.

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

Results, impact, and analysis. The target was exceeded. As of the end of FY 2007, Ginnie Mae securitized 98 percent of eligible multifamily FHA loans. This result is a 1.1 percentage point increase over last year's result, 96.9 percent, and three percentage points above this year's target. Multifamily securities outstanding increased from $37.8 billion in FY 2006 to $38.4 billion in FY 2007. Ginnie Mae strives to maintain a strong supply of decent, affordable rental housing; financing affordable multifamily housing units including apartment buildings, nursing homes and assisted-living facilities. Ginnie Mae has continued to streamline the multifamily program, enhancing its efficiency as a securitization vehicle and making the program more attractive to investors. By promoting access to mortgage credit and enhancing the liquidity of mortgage investment, Ginnie Mae has increased the availability of affordable rental housing for millions of Americans.

Resources and performance link. Funding provided through Commitment Authority is used by Ginnie Mae to guarantee securities backed by government guaranteed or insured loans. Commitment authority approved in FY 2007 was $99.8 billion and securities issued were $85.1 billion**.** Of the $99.8 billion, multifamily used $3.4 billion in commitment authority and issued $3.8 billion in securities.



Data discussion. Data for this indicator are based on FHA-insured loan level data of monthly endorsements collected by Ginnie Mae in its Mortgage-Backed Security Information System (MBSIS). The data that populate Ginnie Mae's MBSIS reflect the most recent data for insured or guaranteed loans. The Office of Inspector General oversees Ginnie Mae's annual financial statements audit, which includes auditing Ginnie Mae's data systems each year; and, not only had Ginnie Mae consistently received an unqualified, or clean, opinion in prior fiscal years, it again receives a clean opinion for the FY 2007 audit.

B1.6: HUD will complete 80 percent of the initial FY 2007 Mark-to-Market pipeline during the fiscal year, reducing rents and restructuring mortgages where appropriate.

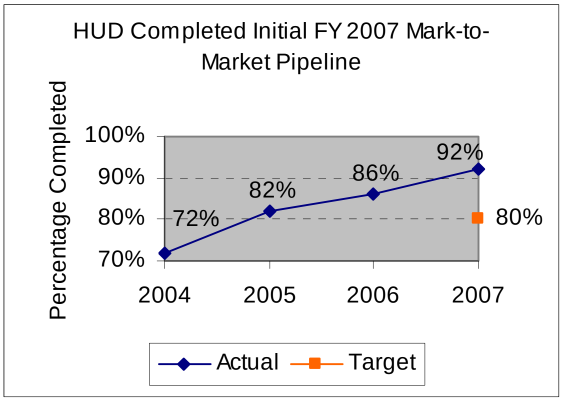
Background. The Mark-to-Market program seeks to preserve affordable housing stock by maintaining the long-term physical and financial integrity of such housing and to reduce the Section 8 rental assistance costs and the cost of FHA insurance claims. Preservation of affordable housing is a top priority because demand significantly exceeds supply. This issue is more fully discussed in indicator B1.1. Under the Mark-to-Market program, the Office of Affordable Housing Preservation analyzes FHA-insured multifamily properties for which Section 8 rents exceed comparable market rents, and reduces Section 8 rents to bring them in line with comparable market rents or levels that preserve financial viability. Properties also are eligible for full debt restructuring that involves a write-down of the existing mortgage in conjunction with the reduced rent levels. This indicator measures completions and closings as a percentage of projects in the pipeline at the beginning of the fiscal year.

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

Results, impact, and analysis. The Department met the goal by completing 92 percent of the initial FY 2007 pipeline. In FY 2007, the Office of Affordable Housing Preservation completed/closed 220 properties under the Mark-to-Market program, resulting in annual

Section 8 savings (non-incurrence of cost) of more than $30 million. The Office of Affordable Housing Preservation's initial active pipeline on October 1, 2006, was 238 assets.

Throughout FY 2007, the Office of Affordable Housing Preservation continued efforts to reach out and improve communication and coordination with HUD staff, performance based contract administrators, owners, and industry groups. The purpose was to educate owners, HUD staff, and other stakeholders about the Mark-to-Market program. As a result, 48 new referrals were received into the Mark-to-Market program and 21 properties re-entered the Mark-to-Market program, for a total of 69 referrals for the fiscal year. Under the "Once Eligible, Always Eligible" provision in the statute, any property that was initially eligible for the Mark-to-Market program but failed to close as a full debt restructuring remains eligible to re-enter the program. The Office of Affordable Housing Preservation continues its efforts under the Mark-to-Market program to preserve the affordability and availability of low-income rental housing and reducing long-term project-based Section 8 rental assistance costs.



Resources and performance link. Utilizing partial insurance claims against the FHA fund as its funding mechanism, Mark to Market in FY 2007 rehabilitated, preserved, and restructured debt on properties with nearly 10,000 units of affordable housing nationwide. This included over $50 million in physical improvements to properties in the Section 8 portfolio. Overall, an average of nearly 20 projects per month were completed/closed and an average of six new referrals were received per month. Over 3,000 properties, resulting in Section 8 savings (non-incurrence of cost) of approximately $216 million per year, have been completed/closed under the Mark-to-Market program since FY 2000.

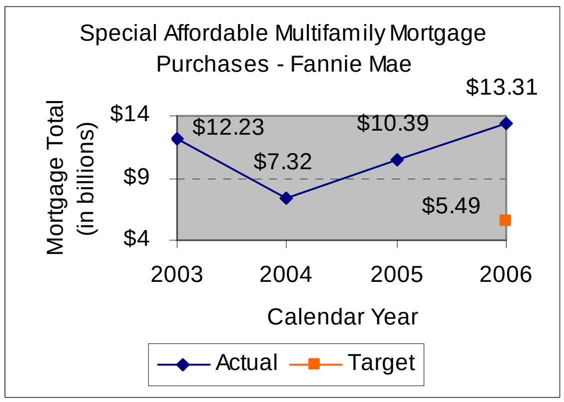
Data discussion. This measure uses data from the Mark-to-Market Management Information System. Results are reported on a fiscal year basis. Values reflect status as of September 2007, including revisions to previously-reported results caused by properties re-entering the Mark-to-Market program under the "Once Eligible, Always Eligible" provision. The Office of Affordable Housing Preservation has put into place various data quality checks to ensure that the information stored in the Mark-to-Market Management Information System is reliable and complete. Monthly data integrity meetings are held between the Office of Affordable Housing Preservation's system manager and its Production Office staff. These meetings focus on timeliness in updating the system as the various milestones of the properties are completed, and reviewing system reports to ensure that dates and data are within established parameters. During the audits of Participating Administrative Entities the performance dates are reviewed against three sources: dates entered into the Mark-to-Market Management Information System; dates recorded in the their final files; and dates shown on supporting documents such as the date the appraisal was completed. For those properties that received a full debt restructuring, staff also examine three separate data sources to be sure all entered data are consistent. The sources include data entered into the Mark-to-Market underwriting model, information reported in the closing dockets, and data entered into the Mark-to-Market Management Information System. The Mark-to-Market system is primarily used to track the milestones completed and final rent determinations for each Mark-to-Market property, enabling the Office of Affordable Housing Preservation to measure performance, estimate savings, and provide budget projections.

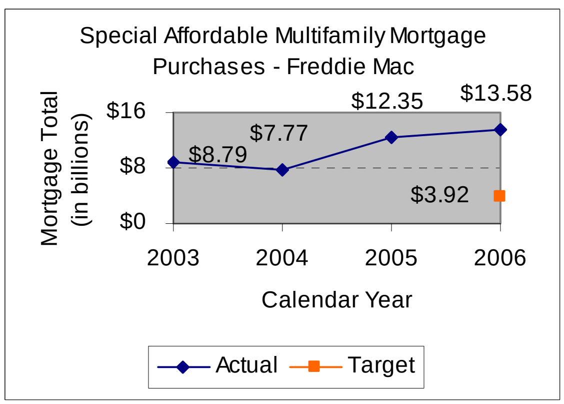
B1.7: HUD will continue to monitor and enforce Fannie Mae's and Freddie Mac's performance in meeting or surpassing HUD-defined targets for special affordable multifamily mortgage purchases.

Background. This indicator tracks the performance of Fannie Mae and Freddie Mac (two housing Government-Sponsored Enterprises) in providing capital for special affordable multifamily housing. The Special Affordable Multifamily Housing goal supports HUD's mission of promoting the creation of new affordable dwelling units by ensuring that both Fannie Mae and Freddie Mac provide market liquidity through multifamily purchase programs targeted to the housing needs of low-income and very low-income families. Fannie Mae and Freddie Mac purchase, guarantee, or acquire interests in multifamily mortgages secured by residential properties that contain at least five dwelling units. When a Government-Sponsored Enterprise acquires a multifamily mortgage, or an interest in such mortgages, it is entitled to count the mortgage towards the calculation of the Special Affordable Multifamily target to the extent that the dwelling units financed by the mortgage meet HUD's eligibility requirements. Qualifying multifamily mortgages are those that fund dwelling units affordable to families earning incomes not exceeding 60 percent of the area median income, or that are affordable to families earning incomes not exceeding 80 percent of the area median income who are living in low-income areas. For calendar year 2006, the Special Affordable Multifamily goal for Freddie Mac was $3.92 billion and $5.49 billion for Fannie Mae.

Program website. http://www.hud.gov/offices/hsg/gse/gse.cfm

Results, impact, and analysis. In calendar year 2006, both Government-Sponsored Enterprises exceeded the Special Affordable Multifamily goal. Fannie Mae purchased $13.31 billion of qualifying multifamily mortgages, while Freddie Mac purchased $13.58 billion.





Small (5 to 50 unit) multifamily properties are an important share of the Government-Sponsored Enterprises' purchases because these properties typically serve lower-income families. In 2006, Fannie Mae's percentage of small multifamily properties that qualified as Special Affordable was 13.1 percent in terms of dollars purchased and 10.7 percent in terms of all multifamily units financed. This compares to 18.0 percent in terms of dollars and 15.0 percent in term of units for 2005. In 2005 Freddie Mac's qualifying Special Affordable small multifamily purchases were 4.3 percent in terms of dollar purchases and 3.6 percent in terms of all units financed. In 2006, these percentages increased to 6.7 percent in terms of dollar purchases and 6.4 percent in terms of units financed.

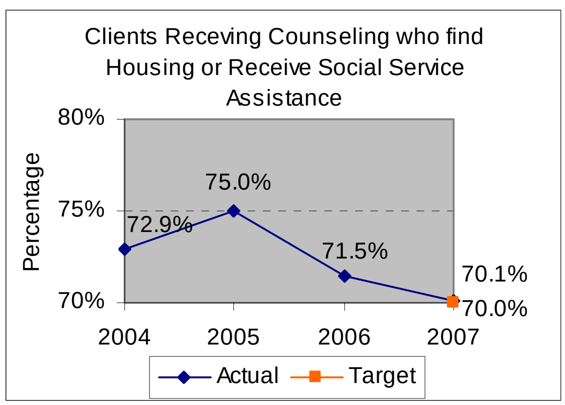
Data discussion: The data reported under this goal are based on calendar year performance. There is a one-year reporting lag because the Government-Sponsored Enterprises report to HUD in the year following the performance year. In addition, because the Government-Sponsored Enterprises' quarterly data is confidential and proprietary, the Department is unable to provide estimates of Fannie Mae's and Freddie Mac's goal performance for the current calendar year. To ensure the reliability of data, Fannie Mae and Freddie Mac apply various quality control measures to data elements provided to HUD. The Department verifies the data through comparison with independent data sources, replication of Fannie Mae's and Freddie Mac's goal performance reports, and reviews of their data quality procedures. Fannie Mae's and Freddie Mac's financial reports are verified by independent audits. The Department has determined that the data is complete and reliable as required by OMB Circular A-136.

B1.8: At least 70 percent of clients receiving rental or homeless counseling either find suitable housing or receive social service assistance to improve their housing situation.

Background: The Department continues to place emphasis on housing counseling, including counseling for homeless clients and families seeking affordable rental housing. Depending on the state of the economy and the housing market, demand for various types of counseling changes may vary for reasons outside of HUD's control. The Department is confident, however, that HUD-approved agencies are providing quality counseling services that will help clients successfully resolve their housing problems regardless of how many clients are served in a given year. As a result, HUD revised this indicator in FY 2006 to focus on outcomes associated with clients receiving rental or homeless counseling rather than the number of clients served. The FY 2007 performance goal is to ensure that at least 70 percent of clients receiving rental or homeless counseling either find suitable housing or receive social service assistance to improve their housing situation by the end of the fiscal year.

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

Results, impact, and analysis. This goal has been met, although final results are not yet available. Reporting results from the first three quarters of calendar year 2007 indicate that 28,776 out of 41,062 clients (70 percent) receiving rental or homeless counseling have either found suitable housing or received social service assistance to improve their housing situation. HUD anticipates that the level of performance will continue as FY 2007 data are finalized and efforts to improve program efficiency and effectiveness continue to be made. Actual FY 2007 outcome data will become available early in FY 2008. HUD approved housing counseling agencies are given 90 days after the end of a fiscal year to report the results of counseling activity for that fiscal year.



Resources and performance link. FHA and the Office of Single Family Housing sponsor 2,300 approved housing counseling agencies throughout the country that can provide advice on buying a home, renting, defaults, foreclosures, credit issues, and reverse mortgages to clients at a low or minimal cost. Funding in FY 2007 of $41.6 million was provided to housing counseling agencies to provide counseling services. The FY 2007 appropriations, which was the same as the FY 2006 appropriations, compares to the President's FY 2008 request of $50 million. In the wake of the subprime market collapse and record setting foreclosures, among other things, the housing market is as complex and dynamic as ever. People more than ever need housing counseling services to appropriately resolve housing situations and have a trusted source that they can approach with housing related questions.

Data discussion. HUD collects data on renters and homeless clients counseled through the Housing Counseling System (HCS-F11). The data include the total number of clients, the type of counseling received and the results of the counseling. An independent assessment in 2005 showed that the Housing Counseling System performance indicator data passed six-sigma quality tests for validity, completeness, and consistency. However, a major limitation of the data collection instrument is that it does not differentiate the level of counseling given to each client, as the quality and level of counseling provided to each client may vary significantly. To improve the quality of housing counseling data, HUD implemented a new automated data collection instrument that will enable it to collect client-level data beginning in FY 2008.

B1.9: Reduce energy costs in building or operating HUD-financed, assisted, or insured housing.

Background. Energy savings continue to be a key policy concern for the Department because of the significant annual expenditure—more than $4 billion—on this single budget item. Savings will help reduce budget costs and keep the inventory of HUD-assisted and public housing affordable. In FY 2002, HUD adopted a 21-point, Department-wide Energy Action Plan in support of the President's National Energy Policy. HUD successfully completed implementation of its Energy Action Plan in 2006.

In August 2006 HUD submitted a Report to Congress, which, pursuant to Section 154 of the Energy Policy Act of 2005 (P.L. 109-58), describes a strategy (Phase II) for energy efficiency in public and assisted housing, as well as housing funded through HUD's formula and competitive grant programs.[1] HUD began implementation of the actions described in the Report to Congress in FY 2007 and will submit a two-year progress report to Congress in FY 2008.[2] HUD also continues to implement a Memorandum of Understanding with the Environmental Protection Agency and the Department of Energy to promote the use of Energy Star products and appliances through HUD programs, and participates in the Partnership for Home Energy

[1] Section 154 states that "(t)he Secretary of Housing and Urban Development shall develop and implement an integrated strategy to reduce utility expenses through cost-effective energy conservation and efficiency measures and energy efficient design and construction of public and assisted housing. The energy strategy shall include the development of energy reduction goals and incentives for public housing agencies. The Secretary shall submit a report to Congress, not later than 1 year after the date of the enactment of this Act, on the energy strategy and the actions taken by the Department of Housing and Urban Development to monitor the energy usage of public housing agencies and shall submit an update every 2 years thereafter on progress in implementing the strategy."

[2] See Report to Congress at www.hud.gov/energy.

Efficiency with these agencies to reduce utility consumption in existing housing by 10 percent by 2010.

HUD's Phase II Energy Action Plan is aimed at upgrading the energy efficiency of existing (as well as new) HUD-assisted and HUD-financed housing, using an established inventory of proven energy-efficient products and appliances, with a strong emphasis on expanding the use of the Energy Star label for both products and new homes.

Program website. www.hud.gov/energy

Results, impact, and analysis. An estimated $33 million in documented energy savings in FY 2007 were reported by program offices in four program areas: HOME, CDBG, energy performance contracting in public housing, and through Energy Efficient Mortgages insured by FHA.

- A total of 32 new performance contracts for public housing agencies were reported in FY 2007, involving a capital investment of $141.3 million and an estimated annual savings of $32.2 million.
- A total of 4,259 units of HOME-funded new construction projects were reported as having achieved the Energy Star label for new homes (15 percent over the 2004 Internal Residential Code), for an estimated savings of $1.2 million.
- A total of 1,118 Energy Efficient Mortgages were reported insured by FHA, for an estimated savings of $390,000.
- A total of 125 units of CDBG-funded projects were reported as having achieved the Energy Star label, for an estimated savings of $36,875.

HUD initiated implementation of the 25-point Phase II Energy Plan in FY 2007. A detailed implementation plan was prepared in March 2007 which describes the specific activities to be undertaken in FY 2007 and FY 2008. Activities undertaken in FY 2007 included the following.

- The Office of Policy Development and Research convened a four-part energy training series for HUD employees, grantees, and partners, which drew more than 2,000 registrants. The training was provided via satellite broadcast and webcast.
- The Department continued to make energy a policy priority in discretionary grant programs through HUD's Super Notice of Funding Availability, and the Department conducted the second annual webcast/satellite broadcast on the points awarded for energy to grant applicants.
- Community Planning and Development reported for the first time on Energy Star-certified units funded through the HOME or CDBG programs in the Integrated Disbursement and Information System.
- Public and Indian Housing provided technical support to PHAs to implement energy performance contracts, continued to develop a utility benchmarking tool that will assist PHAs in managing energy, and operated a Public Housing Energy Conservation Clearinghouse. HUD's ten Regional Energy Coordinators continued to play a prominent

role in leveraging resources for HUD customers and partners, and in working with field offices in conducting training and outreach.

- The Region IX Regional Energy Coordinator was instrumental in developing a bulk purchasing tool for Energy Star products and appliances (at www.quantityquotes.com). The Offices of Policy Development and Research, CPD, Field Policy Management, PIH, and FHA multifamily staff participated in several workshops or served on panels that provided information to customers or grantees, or field offices on the Energy Action Plan, performance contracting in public housing, and energy management in multifamily housing.

Data discussion. Significant progress was made in reporting energy savings projects from four sources: energy performance contracts in public housing, HOME, CDBG and Energy Efficient Mortgages. In general, however, HUD's ability to measure, track, or report energy savings achieved as a result of its energy initiatives remains limited. Apart from savings achieved through energy performance contracts, a tool that is available to a limited number of housing authorities, there are no mechanisms in place to document energy savings in public housing through means other than energy performance contracts. Similarly, no mechanisms are in place to measure or report on energy savings in HUD's assisted or insured multifamily portfolio. No data are available on energy savings achieved in HOPE VI new construction projects, or in Section 202 or 811 new construction or housing rehabilitation. The Office of Policy Development and Research will continue to work with program offices to put in place sampling or other methodologies to track and/or report energy savings in FY 2008.

B1.10: Improve the utilization rate of Housing Choice Voucher funding to 97 percent by FY 2011.

Background. The objective of this goal is to ensure that the funding provided by Congress for Housing Choice Vouchers is effectively used. The Housing Choice Voucher program provides low-income participants with the ability to seek rental housing of their choice, with certain rent parameters and portability features enabling families to take their vouchers to other rental markets in pursuit of available job and other economic opportunities. While most of the Housing Choice Voucher program annual budget authority is currently being used to assist low-income families, some PHAs are not fully using all the budget authority allocated to them. Maximizing the amount of appropriated Housing Choice Voucher funds (Tenant-Based Rental Assistance) used by PHAs is a key HUD priority. Until such time as asset management and the new assessment system are implemented, the Department will report the utilization of Housing Choice Voucher funding as a tracking indicator.

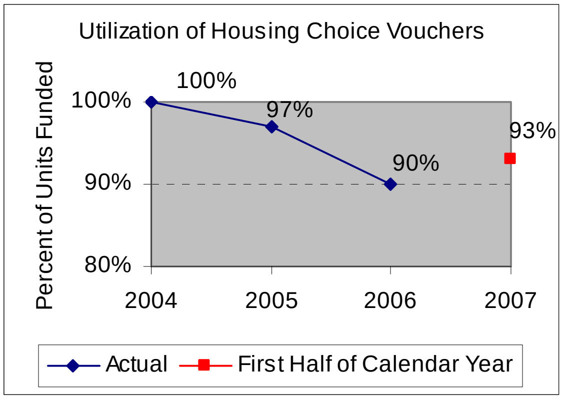
Program website. http://www.hud.gov/offices/pih/programs/hcv/

Results, impact, and analysis. For the six months ended June 30, 2007, PHAs had a projected utilization rate of 93 percent. This is an increase from calendar year 2006—when PHAs used 90 percent of their funding. Although this is an improvement, HUD still expects much greater utilization of these funds. To achieve improved utilization, HUD plans to continue outreach to PHAs and to link future administrative fee payments to PHA leasing levels.

Resources and performance link. For 2007, Congress provided over $13 billion for Housing Assistance Payment funding (Tenant-Based Rental Assistance – Contract Renewals). Housing

Assistance Payment funding was allocated to PHAs based upon pro-rata share of their inflated 2006 Housing Assistance Payment expenditures. From year to year Congress may change the manner in which PHAs are to be funded. For example for 2005, the Voucher Management System data from May to July 2004 was used to allocate funding. In 2006, PHAs received a pro-rata share based on their 2005 funding. HUD expects that future appropriations will allocate funds based on a consistent and predictable methodology so that PHAs can adjust and improve their utilization rates.

Data discussion. On a quarterly basis, the Financial Management Center will compare year-to-date funding with Housing Assistance Payment expenditures as reported in the Voucher Management System. As PHAs are identified for over-utilization and significant under-utilization, HUD staff will contact the PHA to confirm the use of funds and identify potential problems. Problems and issues will be referred to local PIH field offices to provide technical assistance. The local PIH field office will provide quarterly updates on the technical assistance efforts to Program Office and Assistant Secretary.



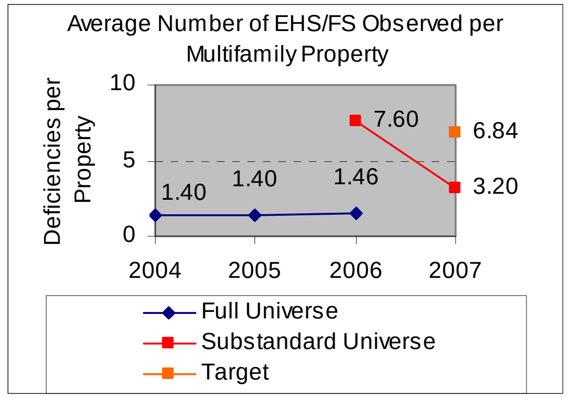
Additionally, the Real Estate Assessment Center's Financial Assessment System audit submission now requires PHAs to report the amount of excess Housing Assistance Payment funding as part of the equity breakout. The equity breakout is being reviewed as part of the Financial Assessment System review. Those PHAs with negative or large balances are being referred to the local field office and Financial Management Center for follow-up.

B2 Improve the physical quality and management accountability of public and assisted housing.

B2.1: Reduce the average number of observed exigent deficiencies per property for substandard multifamily properties by 10 percent.

Background. HUD's Real Estate Assessment Center conducts physical inspections that identify exigent health and safety or fire safety deficiencies. Exigent health and safety hazards include: 1) air quality, gas leaks; 2) electrical hazards, exposed wires/open panels; 3) water leaks on or near electrical equipment; 4) emergency/fire exits/blocked/unusable fire escapes; 5) blocked egress/ladders; and 6) carbon monoxide hazards. Fire safety hazards include: 1) window security bars preventing egress and 2) fire extinguishers expired. (Smoke detectors are excluded from exigent health and safety or fire safety for this measure because they are covered in Indicator C5.1.). In prior years the Department focused on the reductions in exigent health and safety or fire safety deficiencies on an overall basis. From FY 2001 to FY 2006, the average number of exigent health and safety or fire safety deficiencies observed per property was reduced from 1.81 to 1.46 for multifamily housing. Due to scarce monitoring resources, the Department shifted and targeted its focus to the reduction of deficiencies at the worst properties in FY 2007. The goal for FY 2008 will be to continue to reduce the average exigent defects per property for substandard properties with a Physical Assessment Subsystem score of less than 60 by 5 percent.

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



Results, impact, and analysis. HUD exceeded its goal for the reduction in the number of exigent health and safety hazards for privately-owned multifamily properties with a Physical Assessment Subsystem score of less than 60. For FY 2007, there were 1,043 substandard properties with an average of 3.2 exigent deficiencies, a 43 percent improvement in exigent health and safety hazards for HUD's privately-owned properties with Physical Assessment Subsystem scores of less than 60. During FY 2006, there were 810 substandard properties with an average of 7.6 exigent deficiencies. As noted above the methodology for measuring this goal was revised in FY 2007. In 2007 the goal measures the average exigent deficiencies against properties that are classified as substandard. When the data from 2006 were reanalyzed to take into account only substandard properties, the result was an average of 7.6 deficiencies per substandard property, significantly higher than the reported 1.46 number of deficiencies for the entire inspection universe.

This is a very difficult goal to forecast or control, as the worst properties will have the highest likelihood of exigent deficiencies. However taking prompt action to require correction, and with the Department focusing on reducing substandard housing, trends should be evident in future years showing a reduction in average exigent deficiencies.

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

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

Data discussion. The data are from the Real Estate Assessment Center's Physical Assessment Subsystem, consisting of electronically coded and transmitted results of independent physical inspections of units, buildings, and sites, stored in the National Inspection Contract Central Integrated Data Repository. Unit-level data are estimated on the basis of project-level sample observations, extrapolated to the universe of all units. FHA multifamily housing properties are inspected under what is commonly referred to as the "3-2-1 rule." The rule stipulates that inspections of multifamily developments occur at intervals of one, two, or three years depending on the Physical Assessment Subsystem inspection score that the property receives. As a result, not every property in the portfolio and the units associated with those properties are reflected in the Exigent Health and Safety or Fire Safety percentages. There may also be a distortion of the data since many of the properties that receive a Physical Assessment Subsystem score of less than 60 may be inspected more than once annually. Owners and managers validate Exigent Health and Safety Report contents by acknowledging receipt at the time of inspection and reporting corrective actions. In addition, the Real Estate Assessment Center re-inspects units and properties on a sample basis for quality assurance.

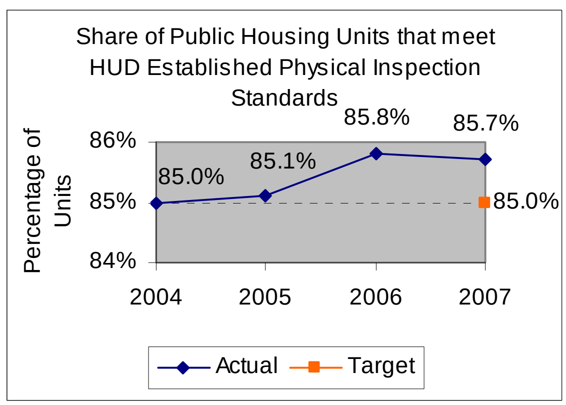
B2.2: The share of public housing units that meet HUD established physical inspection standards is maintained at 85 percent.

Background. HUD requires PHAs to inspect and maintain public housing to ensure compliance with HUD-established standards for physical condition, or with local codes if they are more stringent. This indicator tracks the proportion of units in public housing facilities that meet these physical standards, helping the Department to monitor its success in improving the physical conditions in public housing. This reflects the commitment in the President's Management Agenda to steadily improve the physical quality of public housing, for which HUD's strategic Plan established a goal of 87.5 percent by FY 2011.

The Department revised the FY 2007 target to 85.0 to reflect actual resources available for improvements and maintenance, and the multi-year effort to convert the PHAs to project based asset management by FY 2011. Implementation of asset management will lead to better management and oversight of public housing by providing greater information about the operating costs and performance levels of each public housing project.

Program website: www.hud.gov/offices/reac/products/prodphas.cfm

Results, impact, and analysis. The target was exceeded when compared to the revised goal for FY 2007. In FY 2007, 85.7 percent of public housing units met or exceeded HUD's physical condition standards, which is not statistically different from to 85.8 percent in FY 2006. This performance was achieved in spite of delay in the commencement of inspection activities caused by delays in the federal budget.



Resources and performance link. Adequate resources are required for meeting this goal, particularly during the transition to asset management. The two main budgetary resources come from the Public Housing Operating Fund and Capital Fund programs. In FY 2007, the funding for PIH Capital Fund was $2.4 billion, a decrease from $2.7 billion in FY 2003 and 2004. The Operating fund was $3.9 billion in FY 2007, an increase from $3.5 billion in previous years. The combined operating and capital assistance of $6.3 billion represented 17.5 percent of HUD's discretionary budget authority of

$37.5 billion in FY 2007, and reflected the priority and significant amount of resources allocated to this effort.

However, it is important to note that although there was an overall increase in appropriations for the Operating Fund, the increase was not enough to maintain the same level of prorated funding for FY 2007, which was 83.4 percent of eligibility determined by the funding formula, as compared to a proration of 86.0 percent in FY 2006. The real reduction in the Capital Fund, coupled with the reduced proration in the Operating Fund, had an adverse affect on the PHAs' ability to maintain the physical standards of the properties.

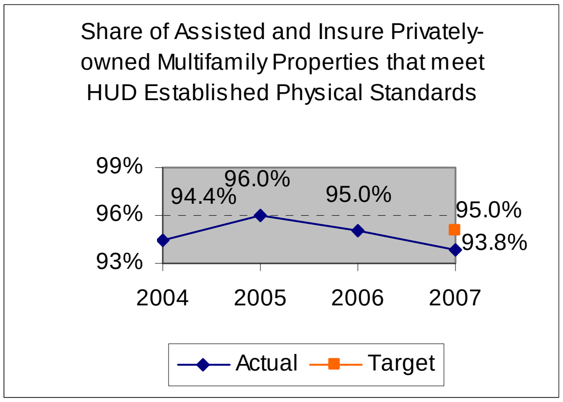
Data discussion. Data for this indicator are from the Real Estate Assessment Center's Physical Assessment Subsystem. Inspections at PHAs are conducted by contractors and are based on a statistically valid random sample of selected buildings and dwelling units within a property. Inspections are scored by the Real Estate Assessment Center system at the property level. The results of project inspections are then aggregated at the PHA level into a Public Housing Assessment System Physical Indicator score and reported as one of four components of the Public Housing Assessment System rule scoring process.

B2.3: The share of assisted and insured privately owned multifamily properties that meet HUD-established physical standards are maintained at no less than 95 percent.

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

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

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



Results, impact, and analysis. The goal of 95 percent was missed. In FY 2007, as of the fourth quarter ending September 30, 2007, 28,294 of 30,173 properties in Multifamily Housing's portfolio (93.8 percent) were found to have acceptable physical condition, thereby modestly missing the goal. This result was affected in part by the number and timing of inspections and the schedule for properties with different degrees of past performance. The multifamily program is on a "3-2-1" inspection schedule, so that the higher performing properties are not re-inspected every year like troubled properties. High scoring properties' scores carry forward until a new inspection is conducted.

For properties that fail to meet physical condition standards, HUD's Asset Management division has implemented a stringent program to bring them into compliance through certain, consistent, timely follow-up action with severe consequences for failure. Properties scoring below 60 receive immediate attention. Upon the first inspection score below 60, the owner is flagged for non-compliance in HUD's Active Partners Performance System and referred to the Departmental Enforcement Center. The Departmental Enforcement Center issues a Notice of Violation, and/or a Notice of Default, and meets with the owner to put the owner on notice that failure to correct the deficiencies will result in severe action. The owner is given 60 days to make necessary repairs to bring the property into compliance. If upon re-inspection the property again fails to meet standards, severe actions are taken. For those properties that the owner either cannot or will not bring into compliance, the alternatives are to force a change in ownership that can bring the property up to standard, or to sever HUD's association with the property by abating any subsidies, and/or directing acceleration and foreclosure for insured properties.

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

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

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

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

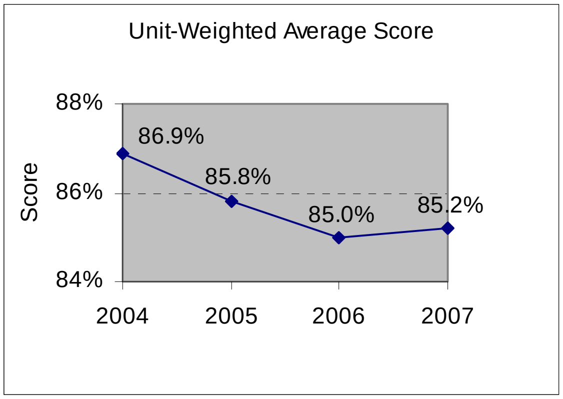
B2.4: Key measures under the Public Housing Assessment System including (a) the unit-weighted average score, (b) observed exigent deficiencies per property among PHAs that are designated as troubled and have five or more deficiencies per property for public housing and (c) the share of units that have functioning smoke detectors.

Background: The Public Housing Assessment System scores provide an indication of the quality of the housing stock and the management conditions within which each public housing resident lives. These three key measures (unit-weighted average score, reductions in exigent health and safety or fire safety deficiencies, and share of unit with functional smoke detection systems) track HUD's progress toward increasing the capability and accountability of PHA partners and increasing the safety and satisfaction of residents. By closely monitoring these indicators, HUD is working to further its commitment in the President's Management Agenda to steadily improve the quality of public housing.

The Public Housing Assessment System assesses the performance of PHAs based on their physical and financial condition and their management quality (30 points each), as well as on resident satisfaction (10 points), for a total score of up to 100 points. Housing agencies with composite scores below 60 points or scores below 18 points for any one component are classified as "troubled" agencies.

The Department is in the process of the redesigning and implementing changes in the assessment systems for both its public housing and voucher programs during the next few years. During this period a comparison of results from year-to-year will be problematic. Additionally, after the new assessment system is functional, the Department will develop new performance goals which will support PHA operations under asset management. Until such time as asset management and the new assessment system are implemented, the Department will report this measure as a tracking indicator.

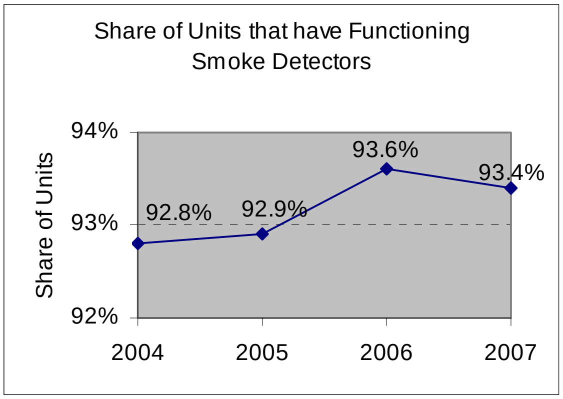
Program website: www.hud.gov/offices/reac/products/prodphas.cfm



Results, impact, and analysis. There was a positive trend in two of the three measures for FY 2007. The unit-weighted average Public Housing Assessment System score was 85.2 percent, compared to 85.0 percent in FY 2006. The average exigent health and safety defects per property assessed (for properties with a physical assessment score of less than 60) dropped from 11.70 defects noted in their previous inspection to 4.89 defects noted in their FY 2007 inspection; this was a reduction of 58 percent, compared to a 54 percent reduction in FY 2006 on a similar basis. For the last subgoal, 93.4 percent of public housing units had functioning smoke detectors and were in buildings with functioning smoke detection systems, compared to 93.6 percent in FY 2006.

Resources and performance link. Adequate resources are required for good results under these indicators, particularly during the transition to asset management. The two main budgetary resources come from the Public Housing Operating Fund and Capital Fund programs. In FY 2007, the funding for PIH Capital Fund was $2.4 billion, a decrease from $2.7 billion in FY 2003 and 2004. The Operating fund was $3.9 billion in FY 2007, an increase from $3.5 billion in previous years. The combined operating and capital assistance of $6.3 billion represented 17.5 percent of HUD's net discretionary budget authority of $37.5 billion in FY 2007 and reflected the priority and significant amount of resources allocated to this effort.

However, it is important to note that although there was an overall increase in appropriations for the Operating Fund, the increase was not enough to maintain the same level of prorated funding for FY 2007, which was 83.4 percent of eligibility determined by the Operating Fund formula, as compared to a proration of 86.0 percent in FY 2006. The real reduction in the Capital Fund coupled with the reduced proration in the Operating Fund had an adverse affect on the PHAs' ability to maintain the physical standards of the properties.



Data discussion: The data sources are the Real Estate Assessment Center-Public Housing Assessment System database. Some PHAs were excluded from this analysis. These consisted of agencies designated as "Moving to Work," "Invalidated," and "Advisory."

All the goals related to the Public Housing Assessment System are predicated on the timely release of scores by the Real Estate Assessment Center. In the event that the Real Estate Assessment Center experiences a significant delay in the issuance of Public Housing Assessment System scores in a particular year, this could affect the outcome and may represent a skewed assessment of the performance trends within a reporting period.

B2.5: For households living in assisted and insured privately owned multifamily properties, the share of properties that meets HUD's financial management compliance is maintained at no less than 98 percent.

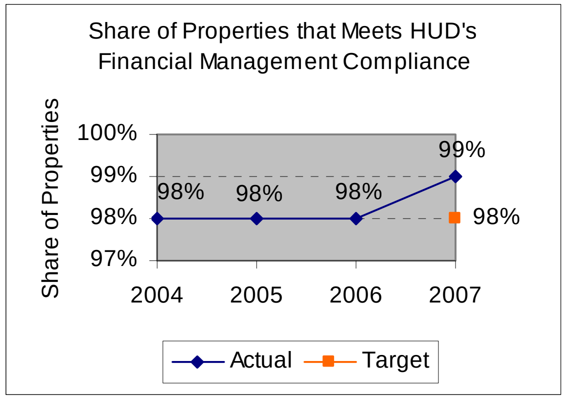
Background. The goal is to maintain high compliance and successful resolutions so that at least 98 percent of the properties submitting audited financial statements either have no compliance issues or audit findings, or have such issues or findings closed (resolved) by the end of each fiscal year. Financial reporting has the important outcome of protecting FHA funds and supports both the quantity and quality of the affordable housing inventory.

Property owners must submit annual financial statements so the Department can ensure that project owners are in compliance with their business agreements, i.e., the regulatory agreement, mortgage and note, and any subsidy contracts. These compliance factors are used in the evaluation of project operations and guide business and operating decisions and have the important outcome of protecting subsidy and FHA funds.

Multifamily project managers in the field offices are responsible for resolving all compliance issues or findings identified by HUD's Real Estate Assessment Center, to achieve the outcome of ensuring that there is the necessary financial information to make business and operating decisions. Owners not submitting their audited financial statements in a timely manner are referred to the Departmental Enforcement Center. HUD's Real Estate Assessment Center evaluates the financial management of both public housing agencies and privately-owned multifamily properties based on generally accepted accounting principles.

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

Results, impact, and analysis. The target was met for FY 2007 with 98.69 percent of financial reviews having no conditions or conditions closed. This goal was achieved with only 251 compliance findings remaining open at year end, out a total reviewed portfolio of 18,588 properties. To meet this goal the Real Estate Assessment Center's Financial Assessment Subsystem reviews electronically submitted financial statements for indicators of non-compliance. In addition, field office staff in the Office of Multifamily Housing review all financial statements and follow-up on issues of non-compliance to ensure the goal is met. Should a property's financial statement identify an issue of non-compliance, the Department obtains owner compliance or pursues appropriate enforcement action.



Resources and performance link. The collection and system analysis of annual financial statement is through the Financial Assessment Subsystem operated by the Department's Real Estate Assessment Center. In FY 2007, Multifamily Housing's funding for the operations of the system totaled $324,000, compared with $457,000 in FY 2006. The system electronically collected assessed over 19,000 financial statements in FY 2007 and 18,000 in FY 2006. The collection and assessment of annual financial statements is crucial to the Department's oversight of the HUD involved properties and the owners' compliance with their business agreements and programmatic requirements. The assessment also provides early warning of financial difficulties improving the Department's ability to forestall or mitigate loss.

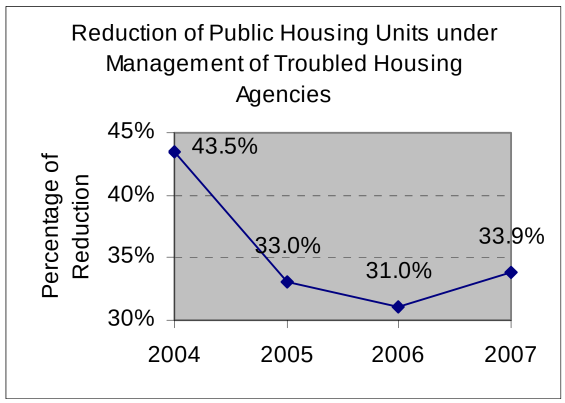
Data discussion. The data come from the Office of Housing's Real Estate Management System and the Real Estate Assessment Center's Financial Assessment Subsystem. The submission of financial statements is a process in accordance with standards established by the American Institute of Certified Public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

B2.6: The percent of public housing units under management of troubled housing agencies.

Background. PIH and the Real Estate Assessment Center use the Public Housing Assessment System to evaluate the performance of PHAs based on four categories: physical condition, management operations, financial condition, and resident satisfaction. Housing agencies with composite scores below 60 percent, or scores below 18 percent in any one component, are classified as "substandard" or "troubled." This indicator tracks the change in the number of units managed by "troubled" agencies at the beginning of the fiscal year that successfully return to "standard" status by the end of the fiscal year due to intervention by the Department.

The Department is in the process of the redesigning and implementing changes in the assessment systems for both its public housing and voucher programs during the FY 2007 to FY 2009 timeframe. During this period a comparison of results from year-to-year will be problematic. Additionally, after the new assessment system is functional, the Department will develop new performance goals which will support PHA operations under asset management. Until such time as asset management and the new assessment system are implemented, the Department will report this measure as a tracking indicator.

Results, impact, and analysis. There was an improvement in this indicator during FY 2007. During FY 2007, the number of units managed by "troubled" PHAs was reduced by 33.9 percent versus 31.0 percent in FY 2006. The number of troubled PHAs as of October 1, 2006 totaled 197 with 71, 391 low-rent units. Seventy-three PHAs from this list were no longer "troubled" by September 30, 2007 after receiving assistance from the PIH field offices and the Recovery and Prevention Corps. The number of units associated with those 73 PHAs totaled 24,166.



Resources and performance link. Adequate resources are required for meeting this goal, particularly during the transition to asset management. The two main budgetary resources come from the Public Housing Operating Fund and Capital Fund programs. In FY 2007, the funding for PIH Capital Fund was $2.4 billion, a decrease from $2.7 billion in FY 2003 and 2004. The Operating fund was $3.9 billion in FY 2007, an increase from $3.5 billion in previous years. The combined operating and capital assistance of $6.3 billion represented 17.5 percent of HUD's discretionary budget authority of $37.5 billion in FY 2007 and reflected the priority and significant amount of resources allocated to this effort.

However, it is important to note that although there was an overall increase in appropriations for the Operating Fund, the increase was not enough to maintain the same level of prorated funding for FY 2007, which was 83.4 percent of eligibility determined by the funding formula, as compared to a proration of 86.0 percent in FY 2006. The real reduction in the Capital Fund coupled with the reduced proration in the Operating Fund had an adverse affect on the PHAs' ability to maintain the physical standards of the properties.

Data discussion. To calculate the percent of troubled housing units that are no longer managed by troubled agencies, the Department collects and analyzes the September 2006 and September 2007 troubled lists. The Troubled list is a monthly document that reports the status of troubled PHAs. Public housing agencies will remain on the Troubled list until the housing authority receives a passing Public Housing Assessment System score—i.e., recovered. For purposes of this analysis the Department only examines data related to low-rent units.

To identify changes to the number of low rent units under the management of troubled PHAs, the September 2006 Troubled list served as the control group for measuring variation in the Troubled portfolio. Because Public Housing Assessment System scores are released on a daily basis it is necessary to establish a control group to assess changes in the scores/designations. To determine the rate at which field offices were recovering troubled agencies for FY 2007, the Department tracked the number of PHAs that were added or removed from the troubled list. The Department then compared the number of PHAs that were listed on the September 2006 report to the number of PHAs that are shown on the September 30, 2007, list. Those PHAs that were not reported on the September 30, 2007, list are considered recovered. The number of units managed by the recovered PHAs was used to calculate the percentage decrease in units managed by troubled agencies.

The analysis only represents a “snap-shot” of the Department’s ability to assist troubled PHAs. Because of reporting delays, appeals, or quality assurance reviews, PHA scores are not always released in a timely fashion. Because of these fluctuations in the release or changes to the scores, this analysis only reflects variations between scores and units of the control group (September 2006 Troubled List) and the PHAs that were deemed troubled as of September 30, 2007.

B2.7: The proportion of the Housing Choice Voucher Program funding administered by troubled housing agencies.

Background. This indicator tracks the portion of the Housing Choice Voucher Program managed by “troubled” agencies. It is an important indicator since troubled agencies do not efficiently handle the funding provided and thus serve fewer recipients then do well managed agencies.

During FY 2006 and FY 2007, HUD developed the methodology for assessing whether a PHA is troubled. During FY 2008 a new assessment system will be implemented. HUD will determine the baseline percentage of Housing Choice Voucher Program funding that is administered by PHAs that are determined to be troubled under this new performance assessment system. At that point, the Department will implement Annual Performance Plan goals to manage PHA performance. Until such time as asset management and the new assessment system are implemented, the Department will report the utilization of Housing Choice Voucher funding as a tracking indicator.

Program website. http://www.hud.gov/offices/pih/programs/hcv/

Results, impact, and analysis. There has been a substantial improvement in this indicator. For 2007, there were 152 troubled agencies, with Housing Assistance Payment funding of $644.6 million (4.5 percent the total Housing Assistance Payment funding). For 2006, there were 168 agencies that received $862.3 million (6.1 percent of the total Housing Assistance

Payments funding). This represents a decrease of 25.2 percent in the funding that those agencies administered and a 9.5 percent reduction in the number of troubled PHAs.

Resources and performance link. The funding for the overall voucher program includes $14.4 billion in Housing Assistance Payments and $1.3 billion in Administrative Fees and represents approximately 40 percent of the Department budget.

Data discussion. The "troubled" agency inventory is based on the most recent assessment for each PHA at the end of the year. For example, if an agency was troubled in 2006 and has not yet been assessed for 2007, that agency is considered troubled for purposes of this analysis. Note that this inventory differs from those used for the prior year data because for the prior years all assessments were completed. Hence, for 2006, the troubled agency inventory consists of all agencies deemed "troubled" via the Section Eight Management Assessment Program as of September 30, 2006. For 2007, the troubled agency inventory consists of all agencies deemed "troubled" via the Section Eight Management Assessment Program for each agency's most recent assessment (2006 or 2007). Accordingly, the trends noted above may not be indicative of the actual trend for the year. In future years, when the assessments are brought current, the Department will restate the FY 2007 results to their actual levels.

B2.8: The HOPE VI Revitalization program for public housing relocates 1,378 households, demolishes 4,209 units, completes 8,745 new and rehabilitated units, and occupies 8,293 units.

Background. HOPE VI is HUD's primary program for eliminating distressed public housing by demolishing unsustainable developments and rebuilding in accordance with community-sensitive principles. However, because of the extensive planning and partnering involved, PHAs have been slower in implementing HOPE VI revitalization plans than was anticipated. The Department established this annual indicator to track the number of HOPE VI revitalization plans that are being implemented in terms of four key outputs: tenants relocated to permit redevelopment, units demolished, new and rehabilitated units completed, and units occupied.

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

Results, impact, and analysis. From July 1, 2006 through June 30, 2007, the HOPE VI Revitalization program successfully accomplished two of the four program output goals. Grantees relocated 3,685 households to permit redevelopment, approximately 167 percent above the goal of 1,378 relocations. Grantees demolished 6,601 units, exceeding the goal of 4,209 units by 57 percent. Completions of new or rehabilitated units totaled 8,436, reaching 97 percent of the 8,745-unit goal. Families occupied 7,793 units, approximately six percent less than the goal of 8,293 occupied units. The FY 2007 achievement is attributable to HUD's continued emphasis on timeliness and accountability in the implementation of HOPE VI grants and the PHAs on-going efforts to meet the commitments of their revitalization plans. The Department anticipates grantees' continued production in homeownership options.

HOPE VI Achievements	FY 2004*	FY 2005**	FY 2006***	FY 2007	FY 2007 goal
Households relocated	4,618	4,702	4,049	3,685	1,378
Units demolished	4,919	8,765	5,034	6,601	4,209
Units constructed or rehabilitated	4,132	9,632	9,389	8,436	8,745
Units occupied	4,210	8,467	10,995	7,793	8,293

* For the nine months ended June 30, 2004.

** For the 12 months ended June 30, 2005.

*** For the 12 months ended June 30, 2006.

This chart revises the achievements reported in the FY 2006 Performance and Accountability Report to include the fourth quarter of data then unavailable. This demonstrates that the demolition goal was exceeded.

Since program inception a cumulative total of 68,657 households had been relocated, 87,445 units had been demolished, 61,222 units (new and rehabilitated) had been completed, and 58,719 completed units had been occupied. With approximately $1.37 billion in HOPE VI funds awarded but not yet expended, HUD continues to work closely with grantees to implement the grants in a timely manner and to positively affect the affected communities. The goals for FY 2008 (300 households relocated; 980 units demolished; 4,979 units completed and 4,562 units occupied) are lower than FY 2007 to reflect a decrease in activities as grants near completion.

Resources and performance link. This program is subject to the availability of appropriations by Congress. The Congress appropriated $99 million to continue a modest HOPE VI program in FY 2007. The President's FY 2008 budget proposes no additional funds for HOPE VI and proposes to rescind all FY 2007 HOPE VI appropriations. Though the Department is not requesting additional funds for this program, it is focused on continuing the progress of current projects and maximizing the effective use of program resources. As a means to encourage completion of delayed HOPE VI projects and to promote the efficient use of funds, the Department proposes in the FY 2008 budget to recover unexpended HOPE VI obligations from nonperforming grantees whose funds were appropriated in fiscal years 2001 and prior. These recovered funds may then be reused for new HOPE VI grants and technical assistance. Accordingly, future activity related to this goal would be met with available prior year funds.

Reasons for shortfall/Plans and schedule to meet the goal. Unit completion and occupancy activities generally require more time to complete, as opposed to relocation and demolition activities. As a result, relocation and demolition goals are achieved more quickly than the unit completion and occupancy goals. The HOPE VI program is a highly complex and ambitious program. Much of the program's success originates from the use of a mixed finance approach to development, though this approach can be a challenge for PHAs to coordinate. The PHAs and program office have always striven to project the best possible performance estimates available at the time of request. Because the projected performance goals are determined two years in advance, the projections would not reflect any significant changes or set-backs experienced by a PHA in the intervening years, such as unanticipated delays in the extensive planning and partnering process, unforeseen environmental conditions, and lawsuits. Such influencing factors can contribute to a delay in the number of demolitions completed. Despite these challenges, the PHAs' and program office's ability to manage and monitor these projects has improved continuously over the life of the program.

The HOPE VI program office continues to emphasize timeliness and accountability in the implementation of HOPE VI grants in order to achieve its goals. The primary tool for achieving these objectives include vigilant management and monitoring of grants by grant managers, holding PHAs accountable to following their program schedule, extensive use of the quarterly progress reporting system in all aspects of the HOPE VI program, risk assessment of grantees, and a range of program and policy guidance.

Data discussion. This goal is based on HOPE VI plans submitted by PHAs. Until June 2006, the program office used the PIH HOPE VI Progress Reporting system, consisting of quarterly progress reports submitted by grantees. Due to the delayed approval of the Department's technical assistance plan, the contract for this system lapsed and no replacement contract could be put in place at that time. As of October 2007, the program office has secured a new contract. In the intervening time, the program office manually collected data submitted by grantees for the quarters missed. Data submitted are judged to be reliable for this measure. However, the data collected through the manual data collection process may necessitate future adjustments to the data. Submitted data are reviewed by HUD staff and verified through grant management activities (e.g., phone, email and written communications) and site visits. HUD Headquarters staff reviews the reports each quarter and compares progress to stated goals and the results of on-site visits by HUD staff and, in some cases, the Army Corps of Engineers.

B2.9: The average length of time for completion of all units in HOPE VI projects will be 7.75 years from the date of the Grant Agreement execution, and 75 HOPE VI grants awarded from FY 1993 through FY 2004 will have completed all unit production.

Background. Through its Strategic Plan, the Department continues to emphasize the importance of timeliness and accountability in its programs, including HOPE VI. That is, the more quickly projects are completed; the more quickly homeownership and affordable housing opportunities will become available. However, because of the extensive planning and partnering involved, as well as extenuating circumstances, grantees have been implementing their HOPE VI redevelopment plans more slowly than was anticipated. Nevertheless, HUD has worked diligently with grantees to shorten the time they need to finish projects, and to increase the total number of projects completed, as measured by completion of all units (whether public housing, tax credit, market-rate, or homeownership) proposed in the revitalization plan.

The Strategic Plan establishes a target of seven years from the execution of the Grant Agreement as the average length of time for completion of all units in HOPE VI projects. In the FY 2008 Annual Performance Plan Appendix A, the average length of time for completion was increased from seven to 7.75 years and the number of completed HOPE VI grants was reduced from 85 to 75 grants. The hurricanes in the Gulf Coast area continue to have a significant negative affect on the construction industry, including HOPE VI grantees in the affected areas and beyond. The cost of construction has greatly increased and there is a shortage of resources in general, as priority is given often to the Gulf Coast area and its immense construction needs. These increased costs and resource shortages affect the housing industry in general, including grantees outside the Gulf Coast area. Some PHAs have experienced difficulties in obtaining the necessary financing (for example, tax credits, conventional financing) to meet the time frame for which they originally planned.

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

Results, impact, and analysis. From July 1, 2006, through June 30, 2007, the average length of time for completion of all units in HOPE VI projects was 7.31 years, surpassing the goal of 7.75 years by more than five months. Additionally, a total of 76 HOPE VI grants awarded from FY 1993 through FY 2004 completed all unit production, exceeding the goal by one. FY 2007 was the first year this goal was tracked in the Annual Performance Plan and Performance and Accountability Report. The FY 2007 achievement is attributable to HUD's continued emphasis on timeliness and accountability in the implementation of HOPE VI grants and the PHAs on-going efforts to meet the commitments of their revitalization plans. The Department's goals for FY 2008 are to achieve an average length of time for completion of 7.6 years and the completion of all unit production for 89 projects.

Resources and performance link. This program is subject to the availability of appropriations by Congress. The Congress appropriated $99 million to continue a modest HOPE VI program in FY 2007. The President's FY 2008 budget proposes no additional funds for HOPE VI and proposes to rescind all FY 2007 HOPE VI appropriations. Though the Department is not requesting additional funds for this program, it is focused on continuing the progress of current projects and maximizing the effective use of program resources. As a means to encourage completion of delayed HOPE VI projects and to promote the efficient use of funds, the Department proposes in the budget to recover unexpended HOPE VI obligations from nonperforming grantees whose funds were appropriated in fiscal years 2001 and prior. These recovered funds may then be reused for new HOPE VI grants and technical assistance. Accordingly, future activity related to this goal would be met with available prior year funds.

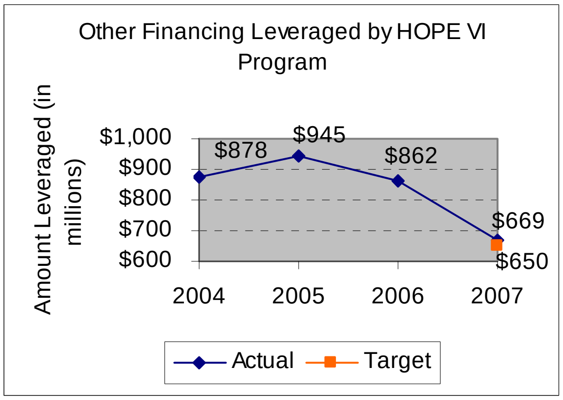
Data discussion. This goal is based on HOPE VI plans submitted by PHAs. Until June 2006, the program office used the PIH HOPE VI Progress Reporting system, consisting of quarterly progress reports submitted by grantees. Due to the delayed approval of the Department's technical assistance plan, the contract for this system lapsed and no replacement contract could be put in place at that time. As of October 2007, the program office has secured a new contract. In the intervening time, the program office manually collected data submitted by grantees for the quarters missed. Data in are judged to be reliable for this measure. However, the data collected through the manual process that was needed until the new contract was in place may require future adjustments. Submitted data are reviewed by HUD staff and verified through grant management activities (e.g., phone, email and written communications) and site visits. HUD Headquarters staff reviews the reports each quarter and compares progress to stated goals and the results of on-site visits by HUD staff.

B2.10: The HOPE VI Program will leverage $650 million of other financing.

Background. The mixed-financing approach to replacement public housing development is the single most important development tool currently available to PHAs implementing HOPE VI revitalization projects. It emphasizes the formation of new public and private partnerships to ensure long-term sustainability of public housing developments and the leveraging of public and private resources to transform the isolated communities in which many public housing residents live into vibrant and sustainable mixed-income communities with a wide range of family incomes. Such financing will help ensure the realization of HOPE VI goals and their contribution toward the Department's strategic goals for homeownership and affordable housing. In the FY 2008 Annual Performance Plan appendix, the FY 2007 goal was reduced from $800 million to $650 million because some project activity is delayed due to increased costs and resource shortages in the housing industry, effecting finalization of financing in some cases.

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

Results, impact, and analysis. From July 1, 2006, through June 30, 2007, the HOPE VI program leveraged $669 million dollars in other financing, surpassing the goal by three percent. FY 2007 was the first year this goal was tracked in the Annual Performance Plan and Performance and Accountability Report. The FY 2007 achievement is attributable to HUD's continued emphasis on timeliness and accountability in the implementation of HOPE VI grants and the PHA's on-going efforts to meet the commitments of their revitalization plans. The Department anticipates grantees to continue to leverage other financing options in connection with their HOPE VI grants and has set a goal of $650 million for FY 2008.



Resources and performance link. This program is subject to the availability of appropriations by Congress. The Congress appropriated $99 million to continue a modest HOPE VI program in FY 2007. The President's FY 2008 budget proposes no additional funds for HOPE VI and proposes to rescind all FY 2007 HOPE VI appropriations. Though the Department is not requesting additional funds for this program, it is focused on continuing the progress of current projects and maximizing the effective use of program resources. As a means to encourage completion of delayed HOPE VI projects and to promote the efficient use of funds, the Department proposes in the budget to recover unexpended HOPE VI obligations from nonperforming grantees whose funds were appropriated in fiscal years 2001 and prior. These recovered funds may then be reused for new HOPE VI grants and technical assistance. Accordingly, future activity related to this goal would be met with available prior year funds.

Data discussion. This goal is based on HOPE VI plans submitted by PHAs. Until June 2006, the program office used the PIH HOPE VI Progress Reporting system, consisting of quarterly progress reports submitted by grantees. Due to the delayed approval of the Department's technical assistance plan, the contract for this system lapsed and no replacement contract could be put in place at that time. As of October 2007, the program office has secured a new contract. In the intervening time, the program office manually collected data submitted by grantees for the quarters missed. Data in are judged to be reliable for this measure. However, the data collected through the manual process that was needed until the new contract was in place may require future adjustments. Submitted data are reviewed by HUD staff and verified through grant management activities (for example, phone, email, and written communications) and site visits. HUD Headquarters staff reviews the reports each quarter and compares progress to stated goals and the results of on-site visits by HUD staff.

B2.11: Approve $50 million of leveraged funds through the Capital Fund Financing Program.

Background. The Capital Fund Financing Program is an appropriations-based financing program that makes financing available to PHAs. This indicator reflects the importance of leveraging private sector resources in order to develop and preserve scarce decent, affordable housing. The agencies borrow funds from the private markets, pledge their capital funds subject to the availability of appropriations, and then repay the financing as they receive their capital funds. Proceeds from Capital Fund Financing Program transactions are used for modernization and development of public housing, thus protecting and enhancing the affordable housing stock. This goal measures the dollar amount of Capital Fund Financing Program transactions approved by the Office of Capital Improvements.

Program website. http://www.hud.gov/offices/pih/programs/ph/capfund/cffp.cfm

Results, impact, and analysis. During FY 2007 the Office of Capital Improvements approved $191 million of leveraged funds through the Capital Fund Financing Program, thus exceeding the $50 million goal by 282 percent. FY 2007 was the first year the goal was tracked in the Annual Performance Plan and Performance and Accountability Report. The fact that the goal was exceeded demonstrates the PHAs' success in using alternative financing mechanisms to fund their capital needs and increase the value of the public housing stock. Leveraging also proves invaluable to those PHAs that do not have enough funds in a single year to make all necessary improvements to their public housing and those that wish to develop new public housing. Additionally, HUD Headquarters and field office staff have worked diligently to raise awareness of and provide technical assistance on the program. The Department has hosted several conferences across the country aimed at providing PHAs with the tools necessary to successfully start and complete Capital Fund Financing Program transactions. The Department anticipates use of the program to grow. However, it should be noted that increased use of the program does not necessarily mean an increase in the average amount of leveraged funds. Because the dollar amount of transactions and the timing of submissions and approvals can vary widely, it is difficult to set precise goals for this program.

Resources and performance link. The PHA obligation is subject to the availability of appropriations by Congress and compliance with statutory and regulatory requirements. In FY 2007, the funding for PIH Capital Fund was $2.4 billion, a decrease from $2.7 billion in FY 2003 and 2004.

Data discussion. The data are collected by HUD and based on the Capital Fund Financing Program proposals received from PHAs. Data are judged to be reliable for this measure. The measure focuses on the key element of the program, which is the amount of funds leveraged through the program.

B2.12: In FY 2007, HUD will award 35 grants to establish new, or expand existing, Public Housing Neighborhood Networks centers.

Background. This funding program provides grants to PHAs to establish, expand, and/or update community technology centers. Neighborhood Networks centers provide access to computers, computer training, and the Internet. Neighborhood Networks centers also can provide a wide range of services to help residents achieve long-term economic self-sufficiency. PHAs may use grant funds for activities such as hiring of a project coordinator to manage and oversee center activities, purchase of computer equipment, Internet connection, physical improvements, computer training, college preparatory classes, job training, and literacy training. Since FY 2002, 265 Public Housing Neighborhood Networks grants have been awarded.

Program website. http://www.hud.gov/offices/pih/programs/ph/ross/aboutnn.cfm or http://www.hud.gov/offices/hsg/mfh/nnw/aboutphnn.cfm

Results, impact, and analysis. The goal was exceed by 54 percent. In FY 2007, the Department awarded 54 Public Housing Neighborhood Networks grants using prior year funds, thus exceeding the goal of 35 grants. Of the 54 grants awarded, 25 were for new centers and 29 for expansion of existing ones. The fact that the goal was exceeded demonstrates the popularity and success of the program among PHAs. These grants were essential in providing funding for the services described above. Additionally, HUD put in place in 2007 a contract to provide centers with a wide-range of technical assistance services. These services include personalized guidance available through email or a toll-free number; weekly email announcements of federal and nonfederal funding opportunities; business-planning software and a website creation tool which will allow centers to create their own individual websites will be available to centers soon. These services combined will help centers plan for long-term sustainability. Funding is not proposed for this program for FY 2008 as these activities can be accomplished through the Capital Fund account without a specific set aside.

Resources and performance link. This program is subject to the availability of appropriations by Congress. The 54 grants awarded in FY 2007 totaled $14.1 million.

Data discussion. Data are judged to be reliable for this measure. The number of grants awarded is determined from the application review process conducted by PIH's Grants Management Center. The application review process involves many levels of quality review in order to ensure awards are made in accordance with the criteria of the Notice of Funding Availability.

B3 Increase housing opportunities for the elderly and persons with disabilities.

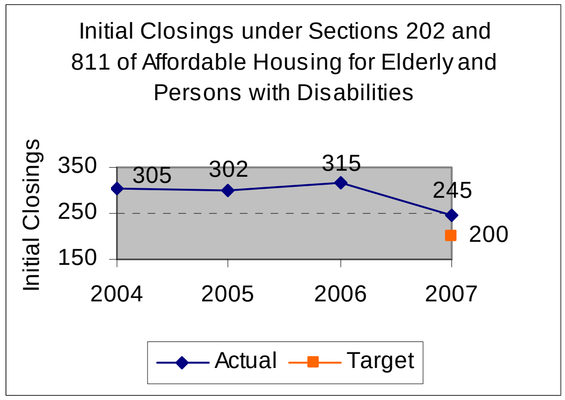
B3.1: Increase the availability of affordable housing for the elderly and persons with disabilities by bringing 200 projects to initial closing under Sections 202 and 811.

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

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

This indicator measures the number of projects that reach the initial closing stage (when the project design has been approved and all of the local community requirements have been met, and the sponsor is ready to start construction).

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



Results, impact, and analysis. The goal was exceeded. During FY 2007, HUD reached initial closing on 245 Section 202 and 811 projects, resulting in an additional 5,590 Section 202 units and 1,123 Section 811 units. In FY 2006, the Department reached initial closing on 315 Section 202 and 811 projects; exceeding the target goal of 250 projects by 26 percent. The decline in part reflects the level funding of the programs over the past few years.

In FY 2008, the goal will continue to be to close 200 projects. However, the goal will be modified to reflect the number of units that will be generated by 100 initially closed Section 202 and 100 Section 811 projects in FY 2008. The overall goal will be 5,100 units (4,000 units for the elderly and 1,100 units for persons with disabilities, respectively).

Resources and performance link. The expansion of affordable rental housing for very low-income elderly persons and persons with disabilities is linked to the fiscal year's appropriation. As more and more of the project rental assistance contracts expire, more of the funds appropriated will go towards extending those contracts, leaving fewer dollars for the development of new units in the future. However, with more emphasis being placed on the development of additional affordable units through the use of low income housing tax credits, it is anticipated that the number of affordable rental housing units will at least be maintained at the current level if not increased. In FY 2007, $639 million was appropriated for Section 202 capital advance, and $159 million for Section 811.

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

B3.2: The number of elderly households living in private assisted housing developments served by a service coordinator is maintained at the FY 2006 level.

Background. This indicator tracks the number of Section 202 projects that receive funding for the employment of service coordinators at elderly assisted housing developments. A service coordinator is a staff person who is hired or contracted for by the development's owner for the purpose of helping elderly residents, especially those who are frail and at risk, obtain needed supportive services that will further enable independent living and aging in place. The original baseline, established at 131,600 units, has been updated to be 352,765.

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

Results, impact, and analysis. The Department successfully accomplished the FY 2007 goal by maintaining the number of units covered by service coordinators in FY 2006. In addition, HUD awarded 21 new grants to provide service coordinators to 22 additional projects. These projects provide affordable housing to 2,228 elderly households.

During the year, OMB requested that HUD establish baseline information on the number of households living in private assisted housing developments served by a service coordinator. In the fourth quarter of FY 2007, to obtain baseline information, Headquarters asked field staff to determine and indicate in the Real Estate Management System whether or not elderly and disabled multifamily assisted housing projects had service coordinators. The survey determined that 352,765 households were living in 38,000 private assisted housing developments served by a service coordinator.

To maintain the number of units served by a service coordinator, previously funded service coordinator grants are either extended through appropriated funds or the expenses associated with the service coordinators are incorporated under the project's regular operating budget. The combination of the existing service coordinator programs and the new grants awarded in FY 2007 ensured that the number of elderly households living in private assisted housing developments served by a service coordinator was maintained at the FY 2006 level. In fact, it increased by over 2,000 households. The ability to maintain the number of units served by a service coordinator in the future will depend upon adequate appropriated funds.

Resources and performance link. In future fiscal years, the percentage of the appropriated funds needed to extend the service coordinators in the previously funded projects is expected to increase to the extent that no funds will remain for new coordinators, unless there is a significant increase in appropriated funds. However, HUD will continue to encourage owners to use operating fund residual receipts and excess income to leverage federal resources in order to increase the number of service-enhanced units. The 2007 appropriation for Service Coordinators was $51 million, and $71 million is requested for FY 2008.

Data discussion. The data were captured in the Real Estate Management System and through surveys and management reviews during FY 2007. Activities for FY 2008 and future fiscal year performance targets will be measured against that established baseline. Tabulations will be reviewed and any problems or discrepancies will be reported.

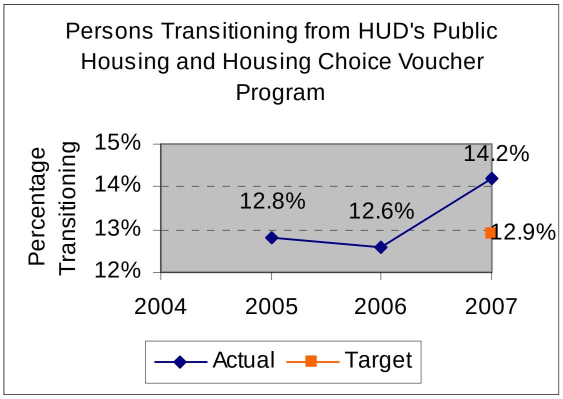
B4 Transition families from HUD-assisted housing to self sufficiency.

B4.1: By FY 2008, increase the proportion of those who transition from HUD's public housing and Housing Choice Voucher programs by 20 percent and decrease the proportion of active participants who have been in HUD's housing assistance programs for 10 years or more by 10 percent.

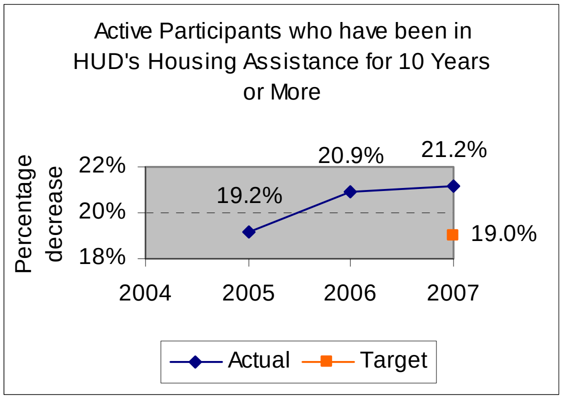
Background. To support the Department's Strategic Goal of promoting decent affordable housing, HUD's public and assisted housing programs provide low-income families with transitional housing that affords an opportunity for families to build towards self-sufficiency. This indicator emphasizes the movement of families to adequate housing of their own, which in turn allows HUD to serve more families in need of housing assistance. The objective of this indicator is to improve, by FY 2008, the annual transition proportion from the FY 2003 baseline of 11.1 percent to 13.3 percent and reduce the proportion of households who have been in HUD's public housing and Housing Voucher Program for 10 years or more from 20.6 percent in FY 2003 to 18.5 percent.

Program website. http://www.hud.gov/offices/pih/programs/ph/index.cfm

Results, impact, and analysis. In FY 2007, 14.2 percent of program participants were able to leave subsidized rental housing. This figure exceeds the FY 2007 interim target of 12.9 percent and the overall FY 2008 target of 13.3 percent. This figure greatly improves upon last year's transition rate of 12.6 percent. The increase in those who "graduated" from housing assistance may be attributed to success of the programs promoting job training, an increase in available affordable private market rental units, a "softer" real estate market, and favorable changes in income and household composition making transition out of housing assistance more feasible.



Conversely, during the same period, HUD found that 21.2 percent of active program participants have been in housing assistance programs in excess of 10 years. This figure fails to meet the interim FY 2007 target of 19.0 percent, which represented a slight improvement from the FY 2006 rate of 20.9 percent. For the second consecutive year, HUD encountered a setback towards accomplishing this goal. HUD remains committed to reducing lengths of stay and meeting the FY 2008 target of reducing the population of those receiving over 10 years of housing assistance to 18.5 percent.



Resources and performance link. Although performance is heavily influenced by the external factors described below, HUD appropriations play a role in our performance toward this goal. In FY 2007, PIH had a $10 million incentive program for Agencies that met the vacancy and long term tenure goals. While we do not believe the funding was sufficient to establish programs that might encourage reductions in long- term stays, we do believe that the incentives may have encouraged more accurate reporting of vacancy figures and were helpful in focusing attention on an important HUD policy. Furthermore, the Family Self Sufficiency set-aside within the Tenant-Based Rental Assistance allocation funds coordinators at the local level who help tenants achieve self-sufficiency. In FY 2007, $47.5 million was appropriated for these coordinators. Proposed legislative reforms will also contribute to greater client self-sufficiency and mobility.

Reasons for shortfall/Plans and schedule to meet the goal. While the Department was successful overall in transitioning program participants towards self-sufficiency, the transitioning of those receiving housing assistance for extended time periods lagged. The percentage of those who have received assistance for 10 years or more is trending negatively. This trend may be attributed to the macro/micro economic and other factors beyond HUD's ability to control. For instance, participants who continue to receive assistance for longer periods of time are more likely to be elderly or disabled, or need extensive job training and other human capital investment to ensure successful transition to the labor market. In addition, the scarcity of affordable housing units in the private market may play a role for some tenants. Lastly, research on those who transition out of housing assistance show that this occurs in the earliest years of assistance (fewer than five years). When participants receive assistance in excess of five years the notion of 'duration dependence' may occur. This idea suggests that the longer someone receives assistance the more they become accustomed to receiving such and therefore become dependent upon the assistance to make ends meet. HUD is working to develop program improvements to address these issues.

Data discussion. HUD uses occupancy data taken from the Inventory Management System database to track and report these measures. PHAs submit these data on each household in their program. Graduation is defined as the proportion of households who were active in the public housing or Housing Choice Voucher programs during the fiscal year and left rental assistance (without reappearance) at any point during the year. For the Voucher program, participants who enter Homeownership are counted as graduating from the rental assistance program.

Resident length of stay is determined by continuous program participation from the date of program admittance to the end of the fiscal year. The length of stay measure does not accurately capture tenure for the small number of participants who transfer between programs because their length of stay at the "new" unit resets at zero.

The Inventory Management System is the most complete data source available on low-income assisted households. However, the data are susceptible to limitations found in all administrative data. Incomplete reporting to the Inventory Management System may introduce some error to these measures. In addition, data are continuously updated into the system. The data have minimal sampling error because they represent a census of assisted households. High reporting rates limit non-response error. PHAs that participate in the Moving To Work Demonstration project have not been required to submit household data into the Public and Indian Housing Inventory Management System and are not represented by these data.

B4.2: The number of residents counseled through the Resident Opportunity and Self Sufficiency program in homeownership readiness will increase by 295, and the number of counseled residents who purchased homes will increase by 26 during FY 2007.

Background. The Resident Opportunity and Self Sufficiency program, through the Homeownership Supportive Services grant category, provides funds to PHAs, tribes/tribally designated housing entities, and qualified nonprofit organizations to deliver homeownership training, counseling, and other supportive services to residents of public and Indian housing. The grant assistance is designed to build upon other self-sufficiency efforts by providing participating residents with the supportive services they need in order to move from rental housing to homeownership. This indicator measures the amount of homeownership counseling received by residents and the number of counseled residents that purchase homes in connection with this program.

Program website. http://www.hud.gov/offices/pih/programs/ph/ross/about.cfm

Results, impact, and analysis. In FY 2007, the Department exceeded both components of this goal. A total of 2,586 residents received counseling through the program, exceeding the goal of 295 by over seven times. Further, a total of 286 counseled residents purchased homes, surpassing the goal of 26 by more than ten times. This is a decrease from amounts achieved in FY 2006 because the grants are nearing completion of activities and thus the potential achievements are also decreased. The fact that the goal was exceeded by such a margin demonstrates the significant impact of the grant dollars. These are pre-2006 grantees who will have completed the terms of their grants in FY 2008. As a result, the Department anticipates the trend of decreasing achievements will continue, as grantees will be closing out their programs.

	Residents counseled	Increase	Residents who purchased homes	Increase
FY 2005 (baseline)	3363		298	
FY 2006	6319	2956	633	335
FY 2007	8905	2586	919	286

Resources and performance link. This program is subject to the availability of appropriations by Congress. The results reported in FY 2007 are based on 47 grantee awards from previous years, that total $13.9 million.

Data discussion. Data currently come from reports that Homeownership Supportive Services grantees submit to field offices. Grantees establish their baselines from their approved work plan and report results as of January 31 and July 30 of each grant year. In the future, the Department plans to have grantees report through an Internet-based logic model system. Until such a system is fully implemented (it is in process currently), the program office will continue to collect data independently from grantees in order to track this goal. Data verification is addressed as a function of field office monitoring and program office analysis. As this is a newer indicator, there has not been an independent evaluation to verify data. The goal may need recalibration once the Internet-based reporting system is operational.

B5: Facilitate more effective delivery of affordable housing by reforming public housing and the Housing Choice Voucher program.

B5.1: Complete analysis of Section 8 and public housing assessment programs and develop a more accurate and efficient assessment tool.

Background. Currently, Section 8 (Housing Choice Voucher) funding is based on a fixed annual budget, yet the program's underlying law and regulations mandate a restrictive, cumbersome program that makes managing within budget very difficult. The Department would like to move to a flexible program as envisioned by the State and Local Housing Flexibility Act of 2005 to eliminate some of the more cumbersome program requirements, emphasize rent reform, and establish a successful (Housing Choice Voucher) Section 8 Program in a budget based environment. The present program monitoring tool, the Section Eight Management Assessment Program, is based on self-reported management indicators. As envisioned, a Section 8 assessment would be basic and results-oriented. Under the proposed program, PHAs would be measured on four main standards: housing quality, fund utilization, financial condition of the agency, and the accuracy of reports. Similarly the Department plans on implementing a new assessment system for public housing, which would modify the current Public Housing Assessment System.

Program website. http://www.hud.gov/offices/reac/products/prodphas.cfm and www.hud.gov/offices/pih/programs/hcv

Results, impact, and analysis. This goal has been met. The analysis for a revised Public Housing Assessment System has been completed and the proposed rule is being prepared.

The analysis for a revised Section Eight Management Assessment Program has been completed after extensive discussions and an industry forum on potential changes to Section 982 and 985 of HUD's regulations. Despite the fact that neither the State and Local Housing Flexibility Act, nor legislation recently introduced in 2007 to reform the Housing Choice Voucher program passed in Congress, the Department completed the development of new regulations revamping the assessment of Housing Choice Voucher agencies from a self-reported inefficient assessment to an independently verified assessment process. The draft regulatory changes were completed prior to September 30, 2007.

The goal for FY 2008 will be to implement the regulatory changes by September 30, 2008, after OMB and Congressional review, as well as industry comments to the proposed rule.

Resource and performance link. The resources that will be needed in order to establish these new performance measurement standards are as follows:

1) Technical Assistance funds to contract out inspections of Housing Choice Voucher units using a statistical random sample of units using a sampling methodology established by Real Estate Assessment Center.
2) Technical Assistance funds to develop the scoring and sampling methodology.
3) Travel funds for field staff to validate some of the performance measures for PHAs
4) Information Technology funds in order to develop a new Section Eight Management Assessment Program scoring module in Public Information Center, along with funds to maintain existing systems Public and Indian Housing Information Center, Voucher Management System and Financial Assessment Subsystem.
5) Sufficient Full Time Employees or contract resources to administer the independent verification of the performance measures which include substantial number of on-site PHA reviews.

The ability to provide PHAS scores is dependent upon timely Congressional appropriations to be able to contract for completion of the physical inspections as well as ensuring timely and adequate funding of the working capital fund to maintain the automated systems that enable the receipt and processing of the financial submissions, management operations certifications and resident satisfaction surveys. PHAs may not be able to submit their financial and management operations information, physical inspections will not be conducted in a timely manner and overall PHAS scores may not be issued.

Data discussion. The data sources for the proposed assessment tool will be the Public and Indian Housing Information Center, a revised Financial Assessment Subsystem, and the Voucher Management System.

B5.2: Asset-based accounting will be implemented in 20 percent of PHAs by FY 2007.

Background. Congress has mandated the transition to asset-based budgeting and accounting for all Public Housing Agencies (PHAs) that operate federal public housing. Under the final rule on the Operating Fund Program, published September 19, 2005, PHAs with fiscal years beginning July 1, 2007, must begin their fiscal years with project-based budgets and are required to submit to HUD a certification of compliance. At year-end, they must include project-level financial statements along with their Financial Data Schedule submission to the Real Estate Assessment Center's Public Housing Financial Assessment Subsystem (i.e., project-based accounting). Unaudited statements are due within two months and audited statements within nine months after close of the fiscal year. The establishment of asset based accounting will help to insure the efficient and timely delivery of the operating subsidy.

Program website: http://www.hud.gov/offices/pih/programs/ph/am/

Results, impact, and analysis. The target was met. As of the end of FY 2007, approximately 30 percent of the PHAs with public housing programs have July fiscal years. As a result, since there was only nominal non-compliance, the goal of 20 percent was met. The result of the PHA's compliance is the knowledge gained by HUD of the operating costs and performance levels of each public housing project in the PHA's low-rent portfolio. FY 2007 is the first year of the transition to asset-based accounting; therefore, no baseline date are available. By April 1, 2008, an additional 75 percent (cumulatively, approximately 100 percent) of PHAs will have implemented project-based budgeting and accounting.

Resources and performance link. Funding provided through the Operating Fund Program is used by PHAs to assist in funding the operating and maintenance expenses of their own dwellings, in accordance with Section 9 of the U.S. Housing Act of 1937, as amended. For FY 2007, the Public Housing Operating Fund Program provided $3.8 billion of operating subsidy.

This funding, which is based on the appropriation from Congress, represents 84.0 percent of the PHA's operating subsidy eligibility. The proration of funding given to the PHAs is below the average of recent years. The implementation of asset management, which will lead to better management and oversight of public housing, should somewhat offset this unfavorable trend.

Data discussion. Data for this indicator are from the Real Estate Assessment Center's Public Housing Financial Assessment Subsystem. At year-end, PHAs must include project-level financial statements along with their FDS submission to the Real Estate Assessment Center's Public Housing Financial Assessment Subsystem. Un-audited statements are due within two months after close of the fiscal year and audited statements within nine months.

The audited statements are submitted by an independent auditor who must be in compliance with OMB A-133, Generally Accepted Government Auditing Standards, Generally Accepted Auditing Standards, and Generally Accepted Accounting Principles. HUD staff reviews the un-audited and audited statements to ensure they meet the above standards. In addition, data will be analyzed by senior staff within the Real Estate Assessment Center and verified by reports and submissions from the field offices and PHAs.

Goal C: Strengthen Communities

Strategic Objectives:

C1 **Assist disaster recovery in the Gulf Coast region.**

C2 **Enhance sustainability of communities by expanding economic opportunities.**

C3 **Foster a suitable living environment in communities by improving physical conditions and quality of life.**

C4 **End chronic homelessness and move homeless families and individuals to permanent housing.**

C5 **Address housing conditions that threaten health.**

PERFORMANCE REPORT CARD - GOAL C

	Performance Indicators	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2007 Target	Met	Notes
C1	**Assist disaster recovery in the Gulf Coast region.**							
C1.1	Assist disaster recover in the Gulf Coast region.				$16.673 obligated	$16.673 obligated	✓	1
C1.2	CDBG disaster recovery funds will be used to make homeowner compensation payments to 130,000 households in Louisiana and Mississippi by September 2008.				74,566	63,750	✓	
C1.3	Facilitate the restoration and enhancement of infrastructure throughout the Gulf Coast region.				Goals established	Goals established	✓	
C2	**Enhance sustainability of communities by expanding economic opportunities.**							
C2.1	A total of 59,787 jobs will be created or retained through CDBG and Section 108.	78,800	91,300	56,000	43,231	59,787	✗	
C2.2	Increase economic opportunity through the use of CDBG funds in communities that have unemployment rates above the national unemployment rate.	N/A	N/A	N/A	294	baseline	N/A	g,h
C2.3	The share of CDBG entitlement funds that benefit low- and moderate-income persons remains at or exceeds 92 percent.	94.9%	95.3%	95.1%	94.8%	92.0%	✓	

PERFORMANCE REPORT CARD - GOAL C

	Performance Indicators	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2007 Target	Met	Notes
C2.4	The share of state CDBG funds for activities that benefit low- and moderate-income persons remains at or exceeds 96 percent.	96.4%	96.8%	96.8%	96.4%	96.0%	✓	
C2.5	Propose CDBG reform legislation on formula and authorization of bonus funds. Implement the transition and operation of the proposed reforms.				Legislation proposed	Legislation proposed	✓	
C2.6	Renewal Communities and Urban Empowerment Zones expand economic opportunity in communities characterized by pervasive poverty, unemployment, and general distress.							
	Commercial Revitalization Deductions	$209	$219	$259	$252	$252	✓	f,k
	Empowerment Zones and Renewal Communities employment credits	$83.45	$105.18	$128	$155	$151	✓	f,k
	Certifications filed by employers to claim Work Opportunity Tax credits	35,077	76,144	30,708	N/A	92,134	N/A	f,a
C2.7	Facilitate the transfer of the Youthbuild program to the Department of Labor.	N/A	N/A	N/A	Program Transferred	Program Transferred	✓	
C2.8	Conduct monitoring and compliance reviews or provide technical assistance under Section 3 to 20 housing authorities and other recipients of HUD financial assistance.	66	22	50	31	20	✓	
C2.9	HUD will monitor recipients' efforts to create Section 3 training, employment, and contracting opportunities and Section 3 covered projects for qualifying low- and very low-income residents and Section 3 businesses by increasing HUD 60002 submissions by 10 percentage points.				29	10	✓	
C2.10	A total of 2,600 jobs and 1,000 housing units will be created through the Rural Housing and Economic Development program.							
	Jobs created				855	2,600	✗	
	Housing units				784	1,000	✗	
C3	**Foster a suitable living environment in communities by improving physical conditions and quality of life.**							
C3.1	At least 35 percent of single-family mortgages endorsed for insurance by FHA are in underserved communities.	39.4%	41.3%	40.2%	42%	35%	✓	

PERFORMANCE REPORT CARD - GOAL C

	Performance Indicators	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2007 Target	Met	Notes
C3.2	The share of multifamily properties in underserved areas insured by FHA is maintained at 33 percent of initial endorsements.	34%	43%	41%	46%	33%	✔	
C3.3	HUD will continue to monitor and enforce Fannie Mae's and Freddie Mac's performance in meeting or surpassing HUD-defined geographic targets for mortgage purchases in underserved areas.							
	Fannie Mae	32.1%	33.5%	41.4%	43.6%	38.0%	✔	f
	Freddie Mac	32.7%	32.3%	42.3%	42.7%	38.0%	✔	f
C3.4	Median loan amounts as reported in Home Mortgage Disclosure Act data will increase in 10 percent of the CDBG Neighborhood Revitalization Strategy Areas that have concentrated community development investments.	N/A	N/A	N/A	N/A	baseline	N/A	h
C3.5	Eliminate the blighting influence of 5,000 vacant, boarded up, or abandoned properties by the end of FY 2007.				5,900	5,000	✔	
C3.6	FHA mortgage insurance enables at least four hospitals to obtain affordable financing for construction or modernization projects.	12	9	9	9	4	✔	
C3.7	Stimulate community development activity totaling 10 times the Section 4 program investment.				63:1	10:1	✔	
C4	**End chronic homelessness and move homeless families and individuals to permanent housing.**							
C4.1	At least 410 functioning Continuum of Care communities will have a functional Homeless Management Information System by FY 2007.	288	387	408	444	410	✔	
C4.2	The percentage of formerly homeless individuals who remain housed in HUD permanent housing projects for at least 6 months will be at least 71 percent.	70%	70%	69%	74.9%	71%	✔	
C4.3	The percentage of homeless persons who have moved from HUD transitional housing into permanent housing will be at least 61.5 percent.	59.4%	60.0%	62.4%	68.9%	61.5%	✔	
C4.4	The employment rate of persons exiting HUD homeless assistance projects will be at least 18 percent.	N/A	17%	17%	22.8%	18%	✔	

PERFORMANCE REPORT CARD - GOAL C

	Performance Indicators	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2007 Target	Met	Notes
C4.5	Create 4,000 new permanent housing beds for chronically homeless persons.	N/A	N/A	4,397	3,865	4,000	✗	
C4.6	The percentage of HOPWA clients who maintain housing stability, avoid homelessness, and access care will reach 80 percent by 2008.	N/A	N/A	N/A	93%	N/A	N/A	b,g
C4.7	Overcrowded households in Indian country shall be reduced by one percent.	2,139	1,959	2,059	1,865	472	✓	
C5	**Address housing conditions that threaten health.**							
C5.1	The share of units that have functioning smoke detectors and are in building with functioning smoke detectors will be 92.8 percent or greater for multifamily housing.	93.4%	94.0%	93.8%	93.5%	92.8%	✓	
C5.2	The number of children under the age of six who have elevated blood lead levels will be less than 240,000 in FY 2007.	N/A	N/A	270,000	235,000	240,000	✓	i
C5.3	As part of a 10-year effort to eradicate lead hazards, the Lead Hazard Control Grant programs will make 10,500 units lead safe in FY 2007.	8,811	7,500	9,638	10,602	10,500	✓	i
C5.4	At least 696 housing units will have a reduction in allergen levels in FY 2007 through interventions using Healthy Homes principles.	N/A	N/A	1,759	975	696	✓	
C5.5	As part of a 10-year effort to eradicate lead hazards, 8,800 units will be made lead safe pursuant to enforcement of the Department's lead safety regulations in FY 2007.	14,867	7,576	6,037	9,696	8,800	✓	
C5.6	HUD will fully implement the dispute resolution and installation programs in HUD-administered states.	N/A	N/A	Did not completely establish	Did not fully implement	2 new programs	✗	

Notes:

- a Data not available.
- b No performance goal for this fiscal year.
- c Tracking indicator.
- d Third quarter of calendar year (last quarter of fiscal year; not the entire fiscal year).
- e Calendar year beginning during the fiscal year shown.
- f Calendar year ending during the fiscal year shown.
- g Result too complex to summarize. See indicator.
- h Baseline newly established.
- i Result is estimated.
- j Number is in thousands.
- k Number reported in millions.
- l Number reported in billions.
- m For one year period ending June 30, 2007
- n First half of calendar year
- o One-year lag in data.

C1 Assist disaster recovery in the Gulf Coast region.

C1.1: Assist disaster recovery in the Gulf Coast region

Background. In response to the disaster on the Gulf Coast as a result of Hurricanes Katrina, Wilma, and Rita, Congress provided $11.5 billion through the CDBG program in December 2005. The Congress provided additional supplemental funding of $5.2 billion for community development and continued housing assistance for Alabama, Florida, Louisiana, Mississippi, and Texas in June 2006. Under this objective, HUD is using supplemental appropriations to support the recovery of housing and critical infrastructure in the Gulf region so the citizens can rebuild their communities and lives. HUD is assisting Louisiana, Mississippi, Alabama, Texas, and Florida in planning and implementing programs to aid in community and economic recovery of the areas destroyed by the hurricanes.

The statute provides that quarterly progress reports be submitted to the Congress and HUD. The statute also maintains broad flexibility in activities authorized under the CDBG program and maintains local discretion on the use of funds via the plans submitted through the states with local collaboration. As expected, housing and infrastructure activities predominate the rebuilding effort as well as economic development and other related activities. Initial performance goals have been established for most of these activities, but in anticipation of pending significant re-programming, baseline targets have not been established.

Program websites.
http://www.doa.louisiana.gov/cdbg/dractionplans.htm (Louisiana)
http://www.mississippi.org/content.aspx?url=/page/3538& (Mississippi)
http://www.tdhca.state.tx.us/cdbg/index.htm (Texas)
http://www.floridacommunitydevelopment.org/disasterrecovery.cfm (Florida)
http://www.adeca.alabama.gov/C8/FY2005%20Application%20Manual/default.aspx (Alabama)

Results, impact, and analysis. During FY 2007, HUD awarded and obligated all remaining supplemental CDBG recovery funds, thereby completing distribution of $16.673 billion to the five states. HUD approved six major waiver packages during FY 2007 to provide maximum flexibility to the states with regard to program design and implementation issues. HUD also approved all outstanding action plans describing state-proposed recovery programs and processed multiple action plan amendments to complete program designs. Given the nature of the program to address disaster needs through local allocations based on locally-set goals, ongoing national annual goals have not been established beyond homeowner compensation and restoration of infrastructure.

Resources and performance link. As of September 30, 2007, $6.2 billion has been disbursed for approved program activities, with the majority of these funds having been disbursed for homeowner compensation programs in Louisiana and Mississippi (described more fully in C1.2.). Of the initial $11.5 billion allocation, $11.1 billion has been budgeted within the Disaster Recovery Grant Reporting system, representing 948 separate activities based on state and/or local plans. States continue to work on budgeting the remainder of the funds, although Louisiana has already drawn substantial amounts under the second supplemental appropriation for its homeowner compensation program. Each activity type has different sets of preferred measures, and goals are set at the local level for each funded activity after funds are allocated.

Data discussion. Grantees submit quarterly performance reports online in the Disaster Recovery Grant Reporting System. CPD staff in Headquarters and the Field Offices review grantee reports to assess accuracy and monitor to ensure that reported performance measures are accurate and that the results are produced in compliance with program requirements.

C1.2. CDBG disaster recovery funds will be used to make homeowner compensation payments to 130,000 households in Louisiana and Mississippi by September 2008.

Background. The states of Louisiana and Mississippi requested eligibility waivers to allow them to use their CDBG disaster recovery funds for homeowner compensation and incentive programs. HUD granted these statutory and regulatory waivers in 2006, after which the states launched homeowner compensation programs.

These are innovative programs operating in complex and unstable economic environments. HUD is establishing this measure to underscore and acknowledge the importance of carrying out these programs in a timely manner and will encourage these grantees to continue striving to exceed these timing goals.

Program website. See C1.1

Results, impact, and analysis. As of September 30, 2007, 74,566 homeowner grants have already been assisted, of which 59,037 were from Louisiana and 15,529 were from Mississippi, and this result exceeds the three quarter prorated target of 63,750. HUD estimates that 85,000 households will receive payments by the end of calendar year 2007, as reported in the indicator write-up for the FY 2008 Annual Performance Plan.

The states estimated in their Action Plans for Disaster Recovery that, combined, they would provide compensation to approximately 130,000 households by the end of FY 2008. It should be noted that the goal of 130,000 households assisted may need to be reduced as the state of Louisiana has found that actual average compensation grant amounts have been larger than anticipated.

Resources and performance link. The grants paid to date represent a disbursement of over $4.7 billion in grants to homeowners and nearly 30 percent of the overall $16.7 billion supplemental CDBG funds appropriated by the Congress. These funds highlight both the degree of devastation resulting from Hurricanes Katrina, Wilma, and Rita and the priority of rebuilding housing resources to restore stability and activity in the hardest hit hurricane locations.

Data discussion. Grantees submit quarterly performance reports online in the Disaster Recovery Grant Reporting System. In addition, HUD receives more frequent updates from Louisiana. CPD staff in Headquarters and the Field Offices review grantee reports to assess accuracy and monitor to ensure that reported performance measures are accurate and that the results are produced in compliance with program requirements.

C1.3: Facilitate the restoration and enhancement of infrastructure through the Gulf Coast.

Background. This indicator establishes a goal to restore and improve infrastructure in the Gulf Coast jurisdictions most affected by the hurricanes of 2005. HUD's Community Development Block Grant disaster recovery program creates the foundation for sustained long-term disaster recovery, including recovery of housing and jobs in low-income communities, through restoration of damaged infrastructure, often in ways that influence future development.

The five Gulf States will use CDBG disaster recovery funds to reconstruct and construct streets, water lines, sewer systems, critical government buildings, and other public facilities to support relief, recovery, and revitalization of the most affected areas. The use of CDBG funds for infrastructure restoration and enhancement activities is one of many choices available to grantees under this flexible disaster recovery grant program. Each state coordinates its own process for soliciting and/or developing projects within its impacted areas. Of public facilities, public improvements, and infrastructure projects in HUD reporting systems to date, Alabama has identified 70 projects, Florida has identified 56 projects, and Texas had identified 378 projects.

Program website. See C1.1

Results, impact, and analysis. Initial performance goals have been established for most of these activities at the local level, but in anticipation of pending significant re-programming, baseline targets have not been established at the national level.

Resources and performance link. Of the $11.5 billion under the first allocation, approximately $4.6 billion has been allocated to infrastructure, public improvements and public facilities. This represents 511 of 948 activities detailed in the reporting systems.

Data discussion. Grantees submit quarterly performance reports online in the Disaster Recovery Grant Reporting System. CPD staff in Headquarters and the Field review grantee reports to assess accuracy and monitor to ensure that reported performance measures are accurate and that the results are produced in compliance with program requirements.

C2 Enhance sustainability of communities by expanding economic opportunities.

C2.1: A total of 59,787 jobs will be created or retained through CDBG and Section 108.

Background. CDBG grantees have the option to establish CDBG-assisted economic development programs that focus on providing financial assistance to businesses that will create or retain jobs, including assistance to microenterprises. Overall CDBG amounts disbursed for economic development activities have been declining slowly over the past several years, reaching a low of $380 million of all disbursements in FY 2006.

The Section 108 loan guarantee program provides an additional source of economic development financing for CDBG grantees. However, loan guarantee authority levels under Section 108 have been reduced from a historic high of two billion dollars in the mid-1990s to approximately $270 million in FY 2005 and $135 million for FY 2006 and FY 2007, respectively. As a result, fewer financial resources are available for CDBG grantees to undertake major economic development activities and the Administration's FY 2008 budget does not request any additional guarantee authority for the Section 108 program.

As a result of the disbursement and financing trends noted above, CPD reduced its estimate of jobs to be created or retained as a result of CDBG and Section 108 assistance for FY 2007 and FY 2008. The FY 2007 revised goals for jobs created or retained as a result of CDBG and Section 108 assistance, respectively, is 54,287, a decrease from 77,284 jobs, and 5,500 jobs, an increase from zero jobs. The FY 2008 estimates are 52,409 jobs for the CDBG program and zero jobs for Section 108 as the Administration is not requesting any additional loan guarantee authority for the program.

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

Results, impact, and analysis. In FY 2007, grantees reported that CDBG assistance assisted in the creation or retention of 39,123 jobs, a shortfall of 15,164 jobs in comparison to the FY 2007 goal of 54,287 jobs. For the Section 108 loan guarantee program, approved applications reflect that 4,108 jobs will be created as a result of Section 108 loan guarantee assistance, a shortfall of 1,392 jobs. The total number of jobs to be created or retained as a result of assistance through these two programs is 43,231. CDBG grantees reported $378 million in disbursements for economic development activities in FY 2007, a slight reduction of two million dollars against FY 2006 economic development activity disbursement levels. Section 108 loan guarantee commitments in FY 2007 were $210,718,000.

Resources and performance link. Local governments receive formula CDBG funds either directly from HUD or through states. Local governments and states develop plans and priorities for expenditure of CDBG funds through CPD's consolidated planning process. The number of jobs created or retained as a result of CDBG assistance is primarily a function of grantee funding decisions and local level implementation. Section 108 loan guarantees are available to local governments receiving CDBG funds either directly from HUD or through State CDBG programs. Local governments submit applications to HUD for loan guarantee assistance, and commitments are approved as long as proposed projects meet basic qualifying criteria and HUD has available loan guarantee authority. Again, projects are developed and implemented by grantees.

Reasons for shortfall/Plans and schedule to meet the goal. There is no evident reason as to the shortfall in the number of jobs created or retained with CDBG and Section 108 assistance in FY 2007, and a thorough analysis will likely take several months. The Office of Block Grant Assistance also notes that job totals have been declining over the past several years. Potential contributing factors may include increased project costs and lack of complete reporting by grantees. The Office of Block Grant Assistance's plan of action will be guided by the data analysis and discussions with grantees.

Data discussion. Estimates for CDBG goals are based on historical accomplishments reported by grantees in the Integrated Disbursement and Information System on jobs created and/or retained, the actual CDBG appropriation and Section 108 guarantee authority level for FY 2007, estimated spend-out rates, and a three percent adjustment for inflation. CDBG accomplishment data come from grantees through the Integrated Disbursement and Information System. Section 108 program data are derived from applications approved during FY 2007.

C2.2: Increase economic opportunity through the use of CDBG funds in communities that have unemployment rates above the national unemployment rate.

Background. This new indicator establishes a goal to improve unemployment conditions in those jurisdictions where the unemployment rate is significantly more severe than that faced by the nation as a whole. Unemployment is one indicator of cities or suburbs that are not sharing in national economic growth. HUD's Community Development Block Grant program may be used to create jobs in low-income communities and help families make progress toward self-sufficiency, all of which contribute to reducing concentrations of unemployment. While grantees have wide discretion in their use of funds, Community Planning and Development will encourage grantees with unemployment rates exceeding the national average to use their CDBG funds to create communities of opportunity and choice for lower income residents.

Entitlement communities use CDBG funds for physical development projects, such as roads, sewers, public facilities, and other infrastructure that make them more attractive locations for business investment. CDBG funds for education, job-training, and other services that support the workforce in low-income communities also make them more attractive to prospective employers. The use of CDBG funds for economic development activities is one of many choices available to grantees under this flexible block grant program. For FY 2008, the goal is that at least half of the entitlement communities with unemployment rates above the national average will use CDBG funds for economic development activities and other activities that promote economic opportunity. Development of a baseline began in FY 2007.

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

Results, impact, and analysis. Although the goal is not effective until FY 2008, CPD's analysis of FY 2007 data indicates that 337 CDBG entitlement grantees had local unemployment rates (as measured by Bureau of Labor Statistics) in excess of the 4.4 percent national unemployment rate, using October 2006 data. Of those 337 grantees, Integrated Disbursement and Information System data indicate that 294 of those grantees were implementing activities that increased economic opportunity during FY 2007. This analysis establishes the necessary baseline for FY 2008 performance on this goal.

Resources and performance link. Local governments receive formula CDBG funds either directly from HUD or through states. In FY 2007, HUD awarded more than $3.7 billion in CDBG funding to those grantees. Local governments and states develop plans and priorities for expenditure of CDBG funds through CPD's consolidated planning process. The number of activities initiated to promote economic opportunity is primarily a function of grantee funding decisions and local level implementation.

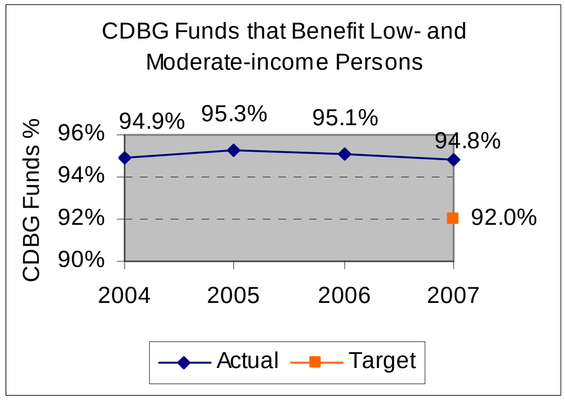
Data discussion. HUD will use Bureau of Labor Statistics data to identify the number of entitlement grantees for which the unemployment rate is above the national average. Bureau of Labor Statistics can provide unemployment data for only 923 of the 1,133 entitlement communities in the CDBG program in FY 2007. HUD will review information reported by these grantees in the Integrated Disbursement and Information System on their use of CDBG for activities that increase economic opportunities to establish a baseline for further measurement, including the number of jobs created and retained, number of jobs with health benefits, and the number of businesses assisted. The Bureau of Labor Statistics data used to identify employment and unemployment rates are the best available. Information on activities that increase economic opportunities is dependent on the redevelopment of the Integrated Disbursement and Information System reporting for the CDBG program. The Bureau of Labor Statistics employs rigorous data quality standards, and it is not feasible for HUD to verify the Bureau of Labor Statistics data independently. HUD continues its collaborations with grantees and technical assistance providers to ensure that the performance indicators will measure this long-term goal.

C2.3: The share of CDBG entitlement funds that benefit low- and moderate-income persons remains at or exceeds 92 percent.

Background. CDBG entitlement communities have the discretion to select the activities they will assist each year, but are required by statute to use at least 70 percent of the funds expended (over a one, two or three year period, selected by each grantee) for activities that benefit low- and moderate-income persons. CDBG grantees have historically significantly exceeded the 70 percent threshold, but HUD continues to emphasize the importance of targeting the use of CDBG funds for activities that benefit low- and moderate-income persons.

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

Results, impact, and analysis. CDBG entitlement grantees report that 94.83 percent of CDBG funds expended in FY 2007 were for activities that primarily benefit low- and moderate-income persons, thus exceeding the goal of 92 percent. This outcome is consistent with historical performance, as the FY 2006 level of low- and moderate-income benefit was 95.1 percent. The FY 2008 goal will retain the low- and moderate-income benefit goal at 92 percent of CDBG entitlement funds expended.



Resources and performance link. Local governments receive formula CDBG funds either directly from HUD or through states with an allocation of $2.6 billion for entitlement communities in FY 2007. Local governments and states develop plans and priorities for expenditure of CDBG funds through CPD's consolidated planning process. The percentage of funds expended for activities is primarily a function of grantee funding decisions and local level implementation.

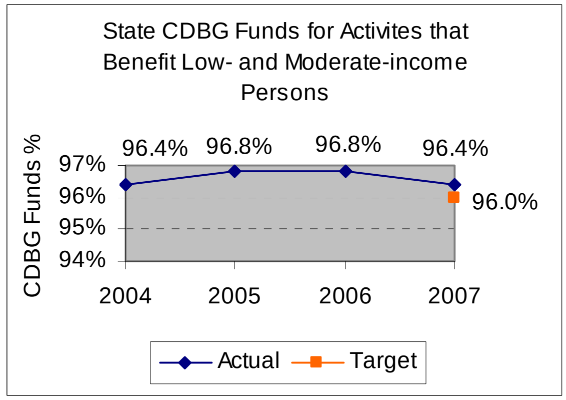
Data discussion. Information reported by grantees on their use of CDBG funds in the Integrated Disbursement and Information System is compiled to report on this goal. CDBG funds used for activities that are available to all residents of a particular geographic area (identified by the grantee) are presumed to serve low- and moderate-income persons if, generally, at least 51 percent of the residents of the area served are low- and moderate-income. CPD field staff verifies program data when monitoring grantees.

C2.4: The share of State CDBG funds that benefit low- and moderate-income persons remains at or exceeds 96 percent.

Background. As with CDBG entitlement communities, states are required to use at least 70 percent of CDBG funds for activities that benefit low- and moderate-income persons. State CDBG grantees have historically exceeded this requirement, but HUD continues to emphasize the on-going importance of strong performance in this area.

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

Results, impact, and analysis. State CDBG grantees report that 96.41 percent of CDBG funds expended in FY 2007 were for activities that primarily benefit low- and moderate-income persons, thus exceeding the goal of 96 percent. This outcome is consistent with historical performance as the FY 2006 level of low and moderate income benefit was 96.77 percent. The FY 2008 goal will retain the low and moderate income benefit goal at 96 percent of State CDBG funds expended.



Resources and performance link. Non-entitled local governments receive formula CDBG funds through states, which were allocated $1.1 billion in FY 2007. Local governments and states develop plans and priorities for expenditure of CDBG funds through CPD's consolidated planning process. The percentage of funds expended for activities is primarily a function of grantee funding decisions and local level implementation.

Data discussion. Information reported by grantees on their use of CDBG funds in the Integrated Disbursement and Information System is compiled to report on this goal. CDBG funds used for activities that are available to all residents of a particular geographic area (identified by the state grant recipient) are presumed to serve low- and moderate-income persons if, generally, at least 51 percent of the residents of the area served are low- and moderate-income. CPD field staff verifies program data when monitoring grantees. HUD implemented changes to the Integrated Disbursement and Information System to improve the information that CDBG grantees report on targeting.

C2.5: Propose CDBG reform legislation on formula and authorization of bonus funds. Implement the transition and operation of the proposed reforms.

Background. Community Planning and Development has developed and submitted to Congress a legislative proposal to reform the CDBG program consistent with the initiatives described in the Administration's FY 2007 and FY 2008 budgets. These initiatives include:

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

The CDBG program remains the largest flexible development program available to communities all across the nation. The Department continues to believe that more effective targeting through CDBG formula reform is essential to meeting the needs of the communities.

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

Results, impact, and analysis. The CDBG Reform Act of 2007 legislative package was forwarded to Congress by Secretary Jackson on June 5, 2007. No member of Congress has introduced the legislation and there were no hearings related to the proposal during FY 2007.

HUD may revise the CDBG reform proposal as part of the FY 2009 budget cycle. Congressional action is required to alter the CDBG formula. Implementation would follow upon enactment of the reform proposal.

Resources and performance link. Enactment of the Department's proposal would significantly improve targeting of CDBG resources to the nation's neediest communities. In addition, the enhanced performance accountability provisions would assist HUD in holding grantees accountable for achieving self-defined results. The program was funded at $3.7 billion in FY 2007.

Data discussion. HUD continues to monitor congressional consideration of the reform proposal.

C2.6: Renewal Communities and Urban Empowerment Zones expand economic opportunity in communities characterized by pervasive poverty, unemployment, and general distress.

Background. The Office of Community Renewal uses three performance measures to determine how the Empowerment Zones and Renewal Communities are progressing in meeting their established goals. These include:

1. the annual dollar value of employment credits that sole proprietors claim while operating in Renewal Communities and Empowerment Zones;
2. the volume of Commercial Revitalization Deduction allocations that states allocate each year to businesses located in the Renewal Communities; and
3. the number of certificates that employers file annually to claim work opportunity tax credits for hiring 18-39 year-old residents of Renewal Communities and Empowerment Zones.

The economic foundation of communities grows stronger as more businesses claim these incentives since the incentives help the businesses save money and encourage the hiring of local residents. This helps businesses to stay viable and expand in distressed areas and helps to maintain and increase employment options for residents of these communities. As businesses claim these tax incentives in increasing rates, communities get stronger. These performance measurements are considered intermediate outcomes because implementation of the Renewal Communities and Empowerment Zones programs focuses strongly on making economic development professionals and the owners and tax preparers for small- and medium-sized businesses aware of the tax incentives.

The Renewal Community and Empowerment Zone employment credits and work opportunity tax credits offer financial incentives to employers to hire residents of Renewal Communities and Empowerment Zones. Employers who use these credits regularly save a great deal at tax time, which helps them to retain current employees and make additional hires.

The Office of Community Renewal obtains data from the Internal Revenue Service and the U.S. Department of Labor, respectively, on employment credit and work opportunity tax credit claims among business owners in Renewal Communities & Empowerment Zone areas. The data have helped HUD to see that these credits are becoming more popular and are contributing to increased employment for residents of these distressed communities.

Communities are also strengthened when entrepreneurs construct new commercial properties and substantially rehabilitate existing properties. Businesses in Renewal Communities that construct or substantially rehabilitate commercial properties are eligible to apply for allocations of commercial revitalization deductions, which help the business owners to depreciate their construction costs in far less time than businesses outside Renewal Communities (for example, 10 years compared to 39 years). The Office of Community Renewal tracks the volume of commercial revitalization deduction allocations that businesses in all 40 Renewal Communities claim each year. The high volume of these allocations over the past several years indicates that this tax incentive is contributing to increased commercial business activity in the Renewal Communities.

The Office of Community Renewal decided not to report in FY 2007 on three impact measures adopted for the first time in the FY 2007 Annual Performance Plan.

(1) The total number of businesses relied upon listings compiled by Dun & Bradstreet, which changed its criteria for including a business in the listings during 2005 and refused to assure HUD that additional changes in its methodology are not forthcoming;

(2) The earned income tax credit data are compiled only by ZIP Codes, and accurately tying them to the designated Renewal Communities and Empowerment Zones areas (denominated mostly in 1990 Census tracts) is problematic; and

(3) The number of addresses vacant at least 90 days is a new metric that became available from the U.S. Postal Service beginning October 2006. HUD's experience using it as a performance measurement indicates that its validity depends on including other factors for which a formula is not yet developed.

Program website. www.hud.gov/cr

Results, impact, and analysis. The goal for Commercial Revitalization Deduction allocations was met ($251.8 million) and achieved the target of $252 million when adjusted for rounding. These competitive allocations are made by state government agencies to businesses in Renewal Communities that want to accelerate the rate of depreciation of costs to construct or substantially rehabilitate commercial buildings.

The Office of Community Renewal selected $252 million as the target for FY 2007 Commercial Revitalization Deduction allocations because this was the approximate amount allocated to businesses in Renewal Communities in FY 2006. There was a rapid increase in Commercial Revitalization Deduction allocations to businesses among the 40 Renewal Communities in previous years, following HUD's designation of these Renewal Communities at the end of 2001.

Given the finite number of Renewal Community designations (40) and the finite volume of Commercial Revitalization Deduction allocations available annually for each Renewal Community ($12 million), the Office of Community Renewal anticipated that the volume of Commercial Revitalization Deduction allocation would stabilize. We expect the Commercial Revitalization Deduction allocations for FY 2008 to be similar to the results for FY 2007. We will continue to educate Renewal Community administrators aggressively on this valuable tax incentive so they continue to help businesses claim this incentive.

PERFORMANCE MEASURES	FY2004 Actual	FY2005 Actual	FY2006 Actual	FY2007 Actual	FY2007 Goal
Amount of Commercial Revitalization Deductions allocated in Renewal Communities (Current Year ending during the FY)	$209 million	$219 million	$259 million	$252 million	$252 million
Amount of Renewal Community and Empowerment Zone employment credits claimed by sole proprietors (Current Year ending during the FY)	$83.45 million	$105.18 million	$128 million	$155 million	$151 million
Number of certificates filed by employers with state governments to claim Work Opportunity Tax Credits for hiring eligible Renewal Communities/Empowerment Zones residents[1]	35,077	76,144	30,708	N/A	92,134

[1]One certificate is filed for each planned or recent hire. Eligible Renewal Community and Empowerment Zone residents must be 18-24 years old and summer hires must be 16-17 years old.

The $151 million FY 2007 goal for Renewal Community and Empowerment Zone employment credits claimed by sole proprietors was surpassed by the calculated forecast figure of $155 million. This forecast figure is submitted as an actual figure based on using a mathematical forecast methodology used by IRS research analysts whom the Office of Community Renewal consults for tax return data. The $155 million figure was forecast from the actual FY 2006 figure published on IRS's website using the same statistical increase that exists between the FY 2005 and FY 2006 published figures.

The Office of Community Renewal selected $151 million as the FY 2007 goal because this was the total after increasing the number of actual claims from FY 2005 ($105.2 million) by 20 percent for two consecutive years. The increase from FY 2004 to FY 2005 was even greater than 20 percent, but the Office of Community Renewal was not convinced that the volume of claims would continue to increase by a percentage greater than 20 percent.

The Office of Community Renewal established a target also for the number of certifications filed by employers to claim Work Opportunity Tax credits for hiring 18-39 year-old residents of the Renewal Communities and Empowerment Zones. At this time, the Office of Community Renewal has only incomplete data for FY 2007. The U.S. Department of Labor (DOL) provides these data to HUD but DOL is only able to provide the full set of data approximately 18-24 months after the end of each fiscal year. HUD will revisit this performance measurement during 2008 in light of the inability to obtain timely data.

The actual figure for FY 2006 was 30,708. This drop-off from the 76,144 figure for 2005 was due to legislative inaction. Congress must extend the work opportunity tax credit when it expires so that employers can use it. The work opportunity tax credit expired at the end of 2004 and Congress did not take action to extend it retroactively to January 2005 until the Summer of 2005. Many employers probably did not learn about this extension until the Fall of 2005. This means that this incentive probably went unused for one-half to two-thirds for 2005, which explains the very low total because FY 2006 reflects calendar year 2005 data. Employers must file paperwork with a state government agency within 28 days of a hire to claim the work opportunity tax credit, so employers who made hires of eligible Renewal Community and

Empowerment Zone residents in January to February of 2005, for example, could not file paperwork in July or August 2005 to claim these credits. During 2007 Congress extended the work opportunity tax credit through the end of 2011.

Resources and performance link. Congress has allocated approximately $11 billion in tax incentives to businesses in the designated Renewal Communities and Empowerment Zones through calendar year 2009 to encourage businesses to sustain and expand their activities in these areas and to hire local residents.

The Office of Community Renewal provides ongoing technical assistance to tax practitioners, business owners, and to the administrators of the 70 Renewal Communities and Empowerment Zones that HUD has designated to help business owners in these areas claim these tax incentives. The increases in employment credit claims among sole proprietors in Renewal Communities and Empowerment Zones and the increasing yearly claims of certificates filed by business owners to claim work opportunity tax credits for hiring designated residents of the Renewal Communities and Empowerment Zones provides evidence that the Office of Community Renewal's aggressive marketing efforts have been successful.

There is a cap on the volume of Commercial Revitalization Deduction allocations made in the 40 Renewal Communities ($480 million), thus HUD does not expect to see ever-increasing levels of Commercial Revitalization Deduction allocations made to businesses in the Renewal Communities. We expect to see the volume of allocations stay at approximately $250 million per year through FY 2010 after increasing by approximately 5-10 percent annually from FY 2004 to FY 2006. The Renewal Communities and Round III Empowerment Zones do not receive grant funding. The most recent grant funding for the Round II Empowerment Zones was appropriated and awarded in FY 2005.

Data discussion. The Office of Community Renewal obtains data on the volume of Commercial Revitalization Deduction allocations from each of the 40 Renewal Community Directors. These Directors provide these data by e-mail and report the data in the Office of Community Renewal's data reporting system, Performance Measurement System (PERMS). The Office of Community Renewal makes every effort to collect these data from persons who participate in awarding Commercial Revitalization Deduction allocations to local businesses, thus we are confident each year that the data that we receive are accurate.

The Office of Community Renewal obtains data on the volume of employment credits claimed from a division of the Internal Revenue Service. The Office of Community Renewal obtains data on the number of certificates that businesses file to claim work opportunity tax credits from a representative of the U.S. Department of Labor. We consider the data that we receive from Internal Revenue Service and the U.S. Department of Labor to be accurate.

C2.7: Facilitate the transfer of the Youthbuild program to the Department of Labor.

Background. The FY 2007 budget proposed to transfer the Youthbuild program from HUD to the U.S. Department of Labor's Employment and Training Administration, as recommended by the White House Task Force on Disadvantaged Youth, to allow for greater coordination of the program with Job Corps and other employment and training programs.

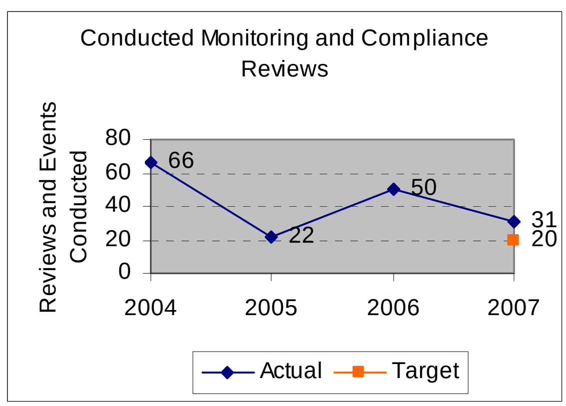
Program website.
www.HUD.gov/offices/cpd/economicdevelopment/programs/youthbuild/index.cfm

Results, impact, and analysis. On September 22, 2006, the Youthbuild Transfer Act was enacted, Public Law 109-281, transferring the Youthbuild program to the Department of Labor, effective FY 2007. HUD staff met with the U.S. Department of Labor during FY 2007 to discuss the implementation of the Youthbuild program and the transition. HUD also participated in a webcast put on by the U.S. Department of Labor. A Community Planning and Development Presidential Management Fellow also did a rotation to the U.S. Department of Labor to help with the transition. Finally, HUD provided technical assistance through its contractor to help with the transition.

C2.8: Conduct monitoring and compliance reviews or provide technical assistance under Section 3 to 20 housing authorities and other recipients of HUD financial assistance.

Background. Section 3 of the Housing and Urban Development Act of 1968 and its implementing regulations requires that recipients of most types of HUD federal financial assistance, including their contractors and sub-contractors, provide training, employment, and contracting opportunities to low- and very-low-income persons and business concerns, as defined in the regulation. HUD contributes substantial amounts of funding annually to support the building, development, and improvement of distressed neighborhoods. The goal of Section 3 is to enhance the sustainability of these communities while empowering Section 3 residents and business concerns in economically distressed neighborhoods through employment, training, and business contracting opportunities.

From this integral foundation, coupled with other resources through other federal, state, and local programs, advocacy groups, and community and faith-based organizations, the desired outcome of Section 3 is to support opportunities for economic advancement and self-sufficiency, which can also be a catalyst to homeownership. Once a Section 3 resident has obtained employment or contracting opportunities, they have increased self-sufficiency and economic stability, which will enhance sustainable communities. The Office of Fair Housing and Equal Opportunity provides technical assistance to Section 3 recipients to develop and implement strategies to ensure that Section 3 goals are achieved. Compliance reviews are conducted to not only monitor recipients' compliance with the legislative mandates but also to ensure compliance with the intent of the regulation.



Program website. http://www.hud.gov/offices/fheo/section3/section3.cfm

Results, impact, and analysis. The target was met for FY 2007. The Office of Fair Housing and Equal Opportunity's Office of Economic Opportunity exceeded the target for FY 2007. The Office conducted a total of 31 compliance reviews and technical assistance events, which exceeded the FY 2007 goal by 55 percent. Specifically, the Office conducted 17 compliance reviews and held 14 technical assistance events. Technical assistance events were held in collaboration with HUD's Office of Public and Indian Housing, the Office of Community Planning, and Development and the Office of Field

Policy and Management. It is expected that the number of compliance reviews and technical assistance events will continue to increase in the future as the Office of Fair Housing and Equal Opportunity continues to collaborate with other HUD program areas.

Resources and performance link. HUD's Office of Economic Opportunity within the Office of Fair Housing and Equal Opportunity provides technical assistance and conducts compliance reviews through both on-site and remote monitoring. The limitation of resources for on-site monitoring affected the number of those reviews that could be conducted; however, collaboration with other program area offices was a successful strategy in providing technical assistance events for recipients. HUD conducted 50 compliance reviews and technical assistance events in FY 2006 and 22 in FY 2005.

Data discussion. Records of compliance reviews and technical assistance are maintained in the Office of Office of Fair Housing and Equal Opportunity's Office of Economic Opportunity. Recipients undergoing reviews or receiving technical assistance receive reports and correspondence as follow-up to on-site visits or remote monitoring. Data are recorded in the HUD Integrated Performance Reporting System and monitored by the Office of Fair Housing and Equal Opportunity's Office of Management Planning and Budget.

C2.9: HUD will monitor recipients' efforts to create Section 3 training, employment and contracting opportunities at Section 3 covered projects for qualifying low- and very low-income residents and Section businesses by increasing HUD 60002 submissions by 10 percentage points.

Background. This goal measures recipient compliance with Section 3 reporting requirements through submission of HUD 60002 annual reports. The goal of Section 3 is to enhance the sustainability of these communities by empowering Section 3 residents and business concerns in economically distressed neighborhoods through employment, training, and business contracting opportunities. HUD form 60002 is a summary of Section 3 compliance regarding training, employment, and contracting opportunities. Compliance requirements are found at 24 CFR Part 135. Data contained in HUD form 60002 are used by the Department to monitor program recipients' compliance with Section 3, to assess the results of the Department's efforts to meet the statutory objectives of Section 3, to prepare reports to Congress, and are used by recipients as a self-monitoring tool.

Program website. http://www.hud.gov/offices/fheo/section3/section3.cfm

Results, impact, and analysis. The target was met. In FY 2007 The Office of Fair Housing and Equal Opportunity's Office of Economic Opportunity monitored recipient reporting compliance and received 1,625 HUD 60002 reports out of a universe of 5,000 Section 3 recipients, which is 19 percentage points over the target. This result corresponds to a 29 percentage point increase over the baseline reporting rate of 4 percent, exceeding the goal of a 10 percentage point increase. Submission of HUD 60002 can be completed online or by hard copy and is required no later than the tenth business day of January for the preceding fiscal year. Due to the lag in the report submission date, the period that is being reported will be for the fiscal year previous to one being currently reported.

Resources and performance link. The Department held a number of education and outreach activities for Section 3 recipients. Outreach activities were conducted collaboratively with HUD's Office of Public and Indian Housing, the Office of Community Development and

Planning, and the Office of Field Policy and Management. Outreach activities increased recipients' knowledge of Section 3 and increased awareness of reporting requirements, which has led to increased rates of compliance.

In the Department's FY 2007 Notice of Funding Availability for competing grant programs, a new rating factor for Section 3 compliance was added for each program area where Section 3 applies. Two evaluative points were added for Section 3 compliance to ensure that applicants include economic opportunities for low- and very low-income residents in their respective applications. It is anticipated that with increased emphasis on Section 3 and awareness by the public and by recipients that the benefits of Section 3 will expand as will compliance with reporting requirements.

Data discussion. Recipients fulfill HUD form 60002 reporting compliance either through an online system or by completing hard copy forms that are mailed to the Office of Fair Housing and Equal Opportunity Office of Economic Opportunity Division. Headquarters staff administers the HUD form 60002 reporting system to track outcomes. Improvements are underway to the online data system to ensure the validity of the data submitted. Enhancements are also being made to internal data systems so that online and manually submitted data are complied complete with built-in checks for accuracy.

C2.10: A total of 2,600 jobs and 1,000 housing units will be created through the Rural Housing and Economic Development program.

Background. The purpose of the Rural Housing and Economic Development Program is to support capacity building at the state and local level for rural housing and economic development and to support innovative housing and economic development activities in rural areas. Funds made available under this program are awarded competitively on an annual basis through a selection process conducted by HUD.

The FY 2008 Annual Performance Plan (see Appendix A) revised the FY 2007 Annual Performance Plan to include this indicator. HUD did not originally include an indicator for this program because no funding was requested for FY 2007. The Congress appropriated $16.8 million for the program; therefore, HUD amended the FY 2007 Annual Performance Plan to reflect this action.

Program website.
http://www.hud.gov/offices/cpd/economicdevelopment/programs/rhed/index.cfm

Results, impact, and analysis. The goals were not met for the indicators as a result of decreased funding. As a result of data collected for the period of October 1, 2006, to September 30, 2007, 855 jobs were created, 1,745 less than the target of 2,600. Additionally, a total of 784 housing units were created, 216 less than the goal of 1,000 units. Of the housing units created, 370 units were new construction and 414 were rehabilitated units.

Resources and performance link. The FY 2007 appropriation was $16.8 million, although no funds were requested. On September 10, 2007, the Secretary announced 58 new grants. Grant recipients have 36 months from the date of the executed grant agreement to complete all project activities. Therefore, the data reported between October 1, 2006, and September 30, 2007, covers awards funded from the FY 2003, FY 2004, and FY 2005 appropriations. From FY 2003 to FY 2005, the appropriation for the Rural Housing and Economic Development program has declined by 32 percent from $24.8 million to $16.8 million.

Reasons for shortfall/Plans and schedule to meet the goal. It is difficult to estimate how many jobs and housing units are ultimately created because grantees have latitude in expending their funds within programmatic guidelines. An application will contain planned activities, but once a program is up and running, circumstances may have changed resulting in different outcomes. Also, as the level of appropriated funds continues to decline, fewer applications are received for review, thereby resulting in fewer qualified awards being made. The Office of Rural Housing and Economic Development will continue to monitor grantees.

Data discussion. The data collection process is conducted through the CPD Field Office. The Office of Rural Housing and Economic Development, HUD Headquarters, analyze and report on collected data.

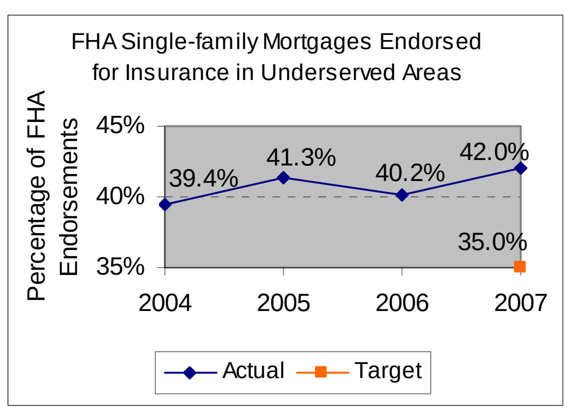
C3 Foster a suitable living environment in communities by improving physical conditions and quality of life.

C3.1: At least 35 percent of single-family mortgages endorsed for insurance by FHA are in underserved communities.

Background. FHA's role in the mortgage market is to extend homeownership opportunities to families that otherwise might not achieve homeownership. There is substantial evidence that the conventional mortgage market does not serve lower income and minority neighborhoods as well as more affluent and non-minority neighborhoods. FHA lending in disadvantaged neighborhoods increases the homeownership rate and contributes to the economic and social capital of the community. To strengthen this indicator's focus on outcomes despite variations in the volume of single family endorsements, it was revised to ensure that at least 35 percent of all single family mortgages endorsed for insurance by FHA are in underserved areas. Underserved neighborhoods are defined in metropolitan areas as census tracts either with a minority population of 30 percent and median family income below 120 percent of the metropolitan area median, or with median family income at or below 90 percent of area median (irrespective of minority population percentage). A similar definition of underserved applies to nonmetropolitan areas, using counties rather than tracts. Historically, the non-FHA mortgage market, as demonstrated by high mortgage denial rates and low mortgage origination rates, has under served these neighborhoods.

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

Results, impact, and analysis. The goal was exceeded by seven percentage points. During FY 2007, 42 percent (218,640 out of 519,350) of single family mortgages endorsed for insurance by FHA were in underserved communities. This result greatly exceeds the target of 35 percent and illustrates FHA's continued success in expanding homeownership opportunities, including in historically underserved communities. The high degree of success in providing service to



underserved areas continues to show strong improvement, as evidenced by the increase from 34.7 percent in FY 2003 to the achievement of 42 percent in FY 2007. This continued success is attributable to marketing and outreach activities in underserved communities. FHA will continue its efforts to provide safe and affordable home financing options in underserved communities through participation in conferences, seminars, and other outreach events.

Resources and performance link. The FHA insurance programs are measured in terms of insurance rather than program budget authority. In FY 2007, the Mutual Mortgage Insurance Fund endorsed approximately $84 billion of mortgages. FHA and the Office of Single Family Housing administer the 203(b), 234(c), and Home Equity Conversion Mortgage loan products without receiving an appropriation from Congress. In FY 2007, the Office of Single Family endorsed a record percentage of endorsements in underserved areas. A trend of increasing endorsements in underserved areas has emerged over the past few years. HUD's commitment towards promoting endorsements in underserved communities results in not only homeownership, but also can promote neighborhood stability and revitalization.

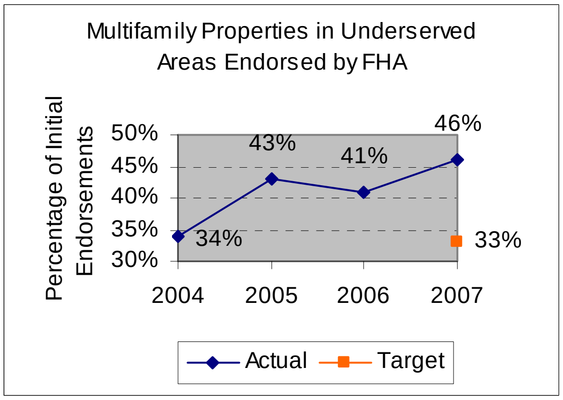
Data discussion. This measure uses data from FHA's Consolidated Single Family Statistical System (F42). This measure may fluctuate when the census tracts constituting underserved areas are redefined using the latest census data. The fluctuations are not expected to substantially reduce the reliability of this national summary measure. An independent assessment completed in 2004 showed that Consolidated Single Family Statistical System performance indicator data passed six-sigma quality tests for validity, completeness, and consistency. HUD verifies FHA data for underserved communities by comparison with Home Mortgage Disclosure Act data.

C3.2: The share of multifamily properties in underserved areas insured by FHA is maintained at 33 percent of initial endorsements.

Background. FHA multifamily insurance is an important contributor to strengthening the social and economic fabric in underserved communities by providing affordable housing, which is in critical short supply. FHA programs include those that insure loans for new construction and substantial rehabilitation of multifamily rental units (Sections 221(d)(3), 221(d)(4), 223(a)(7) refinancings, and 220, and risk-sharing under 542(b) and (c)), as well as Section 223(f), which insures mortgages for existing multifamily properties, either to refinance an existing mortgage or to facilitate the purchase of a property. A moderate amount of repairs may be included in the mortgage. These programs improve the quality and affordability of rental housing, increase their availability in underserved neighborhoods, and promote revitalization of those neighborhoods.

This indicator measures the proportion of multifamily properties in "underserved" neighborhoods, as a percentage of all multifamily properties that receive FHA mortgage endorsements. Underserved neighborhoods are defined in metropolitan areas as census tracts either with a minority population of 30 percent and median family income below 120 percent of the metropolitan area median, or with median family income at or below 90 percent of area median (irrespective of minority population percentage). A similar definition of underserved applies to non-metropolitan areas, using counties rather than tracts.

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



Results, impact, and analysis. The target was exceeded. During FY 2007, Multifamily Development initially endorsed 881 FHA and Risk Sharing loans. 404 (46 percent) of those properties were located in underserved areas. HUD's Multifamily programs exceeded the 33 percent goal by 39 percent. While Multifamily exceeded the goal, FY 2007's 404 loan count was less than the 420 loans in underserved areas in FY 2006; the percent of business in underserved areas was higher in 2007 than in 2006 because FY 2007's total production (881 endorsements) was less than FY 2006's total of 1,016 initial endorsements.

The 404 properties provided 41,221 units/beds in a variety of shelter options (apartments, co-ops, assisted living facilities, and nursing homes). Of these 404 properties, 85 involved new construction or substantial rehab, and 319 involved refinancing and repairs that improved affordability and physical conditions of housing units.

In FY 2008 this goal will remain 33 percent. Continuing to achieve the goal will be more difficult than it has been in past years, but Multifamily expects to meet the goal.

Resources and performance link. While the Department's overall FY 2007 staff levels were about the same as in FY 2006 and production fell primarily because of weaknesses in the overall housing market, spot shortages of technical skills (e.g., appraisal, mortgage, credit, etc) essential to efficient underwriting are appearing as development staff retire, and these shortages could cause processing delays and discourage borrowers from choosing FHA. To avoid such delays, development is encouraging work sharing across offices with a geographically linked offices. Development is also exploring options for centralizing some programs (e.g., health care loans) within selected Hubs. The Multifamily Housing Office is focused on these staff shortages and is working to address critical vacancies.

Data discussion. Endorsements are the loan closings recorded in the Development Application Processing system and Multifamily Insurance system F47, as described in a detail under B1.4. Project locations (county, census tracts, etc) are taken from FHA's Real Estate Management System (REMS). The Office of Policy Development and Research determines which census tracts meet the definition of "underserved" for HUD's role in oversight of Freddie Mac and Fannie Mae, using poverty rates and minority population counts from the decennial Census of Population, updated with the American Community Survey. The Census data used to define underserved areas are the best available. An independent assessment in 2006 showed that the Real Estate Management System performance indicator data passed six-sigma quality tests (reflecting fewer than 3.4 errors per million) for validity, completeness, and consistency. The Census Bureau has rigorous data quality standards, and it is not feasible for HUD to verify Census or American Community Survey data independently.

C3.3: HUD will continue to monitor and enforce Fannie Mae's and Freddie Mac's performance in meeting or surpassing HUD-defined geographic targets for mortgage purchases in underserved areas.

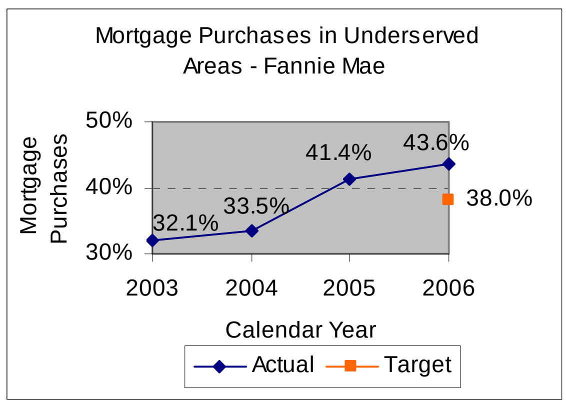
Background. One of the four defined targets that HUD sets for Fannie Mae and Freddie Mac (two housing Government-Sponsored Enterprises) is intended to increase their purchases of mortgages on housing located in central cities, rural areas, and other areas underserved in terms of mortgage credit. This indicator helps support HUD's goal of expanding homeownership opportunities, especially for minority home purchasers.

HUD research has shown that such areas have high mortgage denial rates and low mortgage origination rates, suggesting difficulty in obtaining access to mortgage credit. Beginning in calendar year 2005, HUD increased the Underserved Areas goal from 31 percent to 37 percent. The Underserved Areas goal increased to 38 percent for calendar years 2006 and 2007 and will rise to 39 percent for calendar year 2008. The Underserved Areas Home Purchase Mortgage subgoal will remain 33 percent in 2006 and 2007, and increases to 34 percent in calendar year 2008.

Mortgage purchases qualify towards this target as follows: For metropolitan areas, dwelling units count if they are located in census tracts with (1) tract median family income less than or equal to 90 percent of area median income or (2) minority composition of at least 30 percent *and* tract median family income less than or equal to 120 percent of area medium income. Dwelling units in non-metropolitan areas count if (1) median family income of the census tract is less than or equal to 95 percent of the greater of state or national non-metropolitan median income or if (2) minority concentration of the census tract is at least 30 percent *and* tract median family income is less than or equal to 120 percent of the greater of state or national non-metropolitan median income.

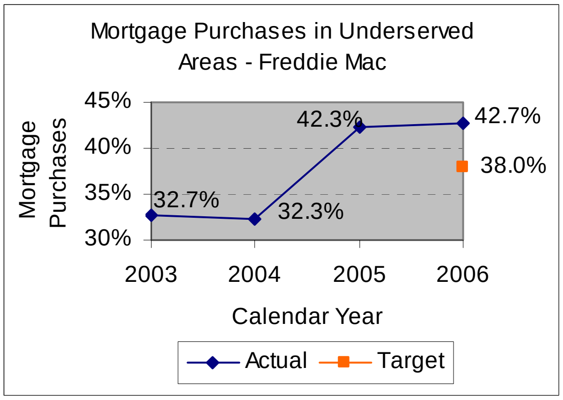
Program website. http://www.hud.gov/offices/hsg/gse/gse.cfm

Results, impact, and analysis. In calendar year 2006, Fannie Mae and Freddie Mac surpassed HUD's target of 38 percent for mortgage purchases in underserved areas. Fannie Mae achieved a performance of 43.6 percent, while Freddie Mac's performance was 42.7 percent. Both Government-Sponsored Enterprises also surpassed the subgoal of 33 percent for underserved areas home purchase mortgages, with Freddie Mac achieving 33.6 percent and Fannie Mae achieving 34.5 percent.



An analysis of the composition of units that qualified to count toward the Underserved Areas goal in 2006 shows 1.14 million dwelling units, or 72.1 percent of the dwelling units that qualified towards Fannie Mae's performance under the goal, were on properties located in high-minority census tracts (i.e., tracts with 30 percent or greater minority population). Freddie Mac purchased mortgages for 941,406 dwelling units in high-minority census tracts, or 71.3 percent of Freddie Mac's qualifying purchases serving this market. For both Government-Sponsored Enterprises, these percentages show a small increase from the 2005 figures that were 71.1 percent for Fannie Mae and 71.3 percent for Freddie Mac.

With regard to the percentage of owner-occupied dwelling units qualifying for the Underserved Areas goal that were affordable to low-income families (i.e., those earning 80 percent or less of area median income), Freddie Mac's purchases decreased from 44.6 percent in 2005 to 36.2 percent in 2006, and Fannie Mae's purchases decreased from 48.1 percent in 2005 to 38.0 percent in 2006.



Data discussion. The data reported under this goal are based on calendar year performance. There is a one-year reporting lag because the Government-Sponsored Enterprises report to HUD in the year following the performance year. In addition, because the Government-Sponsored Enterprises' quarterly data is confidential and proprietary, the Department is unable to provide estimates of Fannie Mae's and Freddie Mac's goal performance for the current calendar year. To ensure the reliability of data, Fannie Mae and Freddie Mac apply various quality control measures to data elements provided to HUD. The Department verifies the data through comparison with independent data sources, replication of Fannie Mae's and Freddie Mac's goal performance reports, and reviews of their data quality procedures. Fannie Mae's and Freddie Mac's financial reports will be verified by independent audits. The Department has determined that the data are complete and reliable as required by OMB Circular A-136.

C3.4: Median loan amounts as reported in Home Mortgage Disclosure Act data will increase in 10 percent of the CDBG Neighborhood Revitalization Strategy Areas that have concentrated community development investments.

Background. In developing a baseline for this indicator, CPD built upon information developed in the Policy Development and Research publication, "The Impact of CDBG Spending on Urban Neighborhoods" (October 2002), and a study in Housing Policy Debate, "Measuring the Impact of CDBG Spending on Urban Neighborhoods" (2004). This research suggests a positive relationship between CDBG investments in neighborhoods and median mortgage loan amounts. Mortgage loan amounts may be a compelling outcome indicator of improving neighborhood conditions because they reflect the interest of families and individuals in investing in, and often committing personal resources to improve, what may formerly have been a distressed neighborhood. Under the CDBG program, Neighborhood Revitalization Strategy Areas (NRSAs), developed by the grantees and approved by HUD, may receive concentrated CDBG benefits, so established Neighborhood Revitalization Strategy Areas were the focus of the examination. In FY 2006 and by FY 2007, the Department collected baseline data for this indicator. Beginning in FY 2008, the Department will continue its analysis and commence reporting on the results.

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

Results, impact, and analysis. In FY 2007 the Department looked at available historic data to develop a baseline to begin measuring the impact of NRSAs on median loan amounts as reported in HMDA. In reviewing data between 2004 and 2005, there is evidence indicating that median home loan value increased in at least 10 percent of NRSAs. In FY 2006 and by FY 2007, the Department collected baseline data for this indicator. Beginning in FY 2008, the Department will commence reporting on the results.

Resources and performance link. CDBG entitlement grantees receive formula CDBG funds directly from HUD and develop plans and priorities for expenditure of CDBG funds through CPD's consolidated planning process. The decision to utilize NRSA designations in support of targeted community development efforts is at the discretion of the entitlement grantee as is the level of financial resources directed toward NRSAs.

Data discussion. The Home Mortgage Disclosure Act (HMDA), enacted by Congress in 1975 and implemented by the Federal Reserve Board's Regulation C, requires lending institutions to report public loan data. Institutions report on the value of the mortgage, the ethnicity, race and gender of the borrower, and the census tract in which the property is located. In partnership with the Office of Policy Development and Research, HMDA data were queried to gather a median loan amount for each census tract in an NRSA for each year in which the data were available and consistent.

C3.5: Eliminate the blighting influence of 5,000 vacant, boarded up, or abandoned properties by the end of FY 2007.

Background. This new initiative is projected in HUD's FY 2006-2011 Strategic Plan to encompass the elimination of 25,000 vacant or boarded up properties by FY 2011. This initiative is expected to make a measurable contribution to the priority outcome of restoring and strengthening neighborhood communities by improving the quality of residents' lives because vacant, abandoned, or boarded up properties are associated with neighborhood decline. The removal or improvement of these properties is a promising indicator of neighborhood improvement. CPD is working with the Office of Policy Development and Research to best define and track this indicator, and to identify reliable data sources.

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

Results, impact, and analysis. The goal was met. CPD used the most recent data available from the Integrated Disbursement and Information System to identify grantees that used CDBG funds for FY 2007 activities involving demolition or clearance. According to a review of this data CDBG funds contributed to the clearance or demolition of at least 5,900 structures.
The Department reviewed quarterly extracts of United States Postal Service administrative data on vacant addresses to explore their potential utility for tracking neighborhood change on a quarterly basis. A preliminary review of the data indicates that in distressed areas, a reduction in total addresses from quarter-to-quarter appears to be a strong indicator of where demolition is occurring. The Department is exploring whether combining this U.S. postal data with other measures of census tract distress will allow HUD to construct a statistical definition of "vacant and abandoned" that can be tracked over time.

Resources and performance link. Local governments receive formula CDBG funds either directly from HUD or through states. Local governments and states develop plans and priorities for expenditure of CDBG funds through CPD's consolidated planning process. The number of structures addressed is primarily a function of grantee funding decisions and local level implementation.

Data discussion. It is important to keep in mind that this is a new and relatively untested data collection effort. HUD is making these data available for researchers and practitioners to explore their potential utility for tracking neighborhood change on a quarterly basis. In addition to the total counts, the U.S. Postal Service is reporting the number of days an address has been in each category to HUD, such that vacancy is defined based on the number of days that delivered mail has remained uncollected at an address. Because U.S. Postal Service did not start counting days in each category until after entering into this agreement with HUD, the starting point for counting days in each category was November 18, 2005.

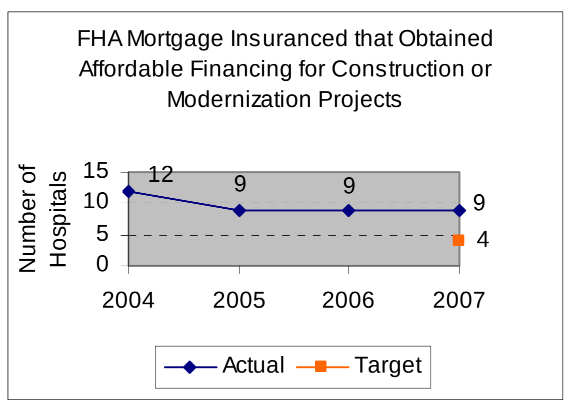
C3.6: FHA mortgage insurance enables at least four hospitals to obtain affordable financing for construction or modernization projects.

Background. This indicator measures the number of hospital mortgage insurance commitments issued through Section 242 and 241 of the National Housing Act. FHA Section 242 mortgage insurance enables hospitals to access the capital they need in order to renovate, expand, or replace facilities to better serve their communities. FHA mortgage insurance enables hospitals to obtain a credit rating of AA for their projects. This credit enhancement significantly reduces borrowing costs for hospitals, making critical construction projects possible.

Hospitals and their construction projects help strengthen communities by contributing to local economies and the quality of life of community members. The number of employees, the total dollar amount of payroll, and the high average wage rate paid by hospitals represent a very positive, direct economic affect on the hospital's service area and community. A December 2006 study issued by the Metropolitan Chicago Healthcare Council on the city's hospitals documented an employment multiplier effect of 2.45. That is, for every new job created in the hospital sector, 1.45 jobs are created in other businesses in the greater metropolitan area.

Program website. http://www.fha.gov/healthcare/index.cfm

Results, impact, and analysis. The target was exceeded. Nine commitments for hospital mortgage insurance were issued during FY 2007, compared to a revised goal of four. This exceeded the revised goal by 125 percent. The result matched the FY 2006 level of nine commitments.



The office's original goal for FY 2007 was seven commitments. The goal was revised downward after a long-standing contract between HUD and the U.S. Department of Health and Human Services (HHS) ended. Under the arrangement, which ended in mid-FY 2007, HHS provided a critical number of underwriting, architectural/engineering, and support staff to the Section 242 Program. As a result of the contract's conclusion, the program lost about one-third of its 40 employees.

Despite the loss, staff members were able to perform the necessary reviews to issue six commitments in the last quarter of FY 2007, an unexpected success owing to the dedication of the office's staff members, as well as cooperation and support from HUD's field offices, which complete environmental and previous participation reviews.

FHA's commitments result in significantly reduced borrowing costs for hospitals. Mortgage bankers representing the nine hospitals that received commitments in FY 2007 estimate that FHA insurance will save these facilities approximately $150 million in interest expense over the lives of these loans. The hospitals and their construction managers estimated that over 1,350 full-time and part-time construction jobs will be created by these projects.

Resources and performance link. FHA and the Office of Insured Health Care Facilities direct the Section 242 Program, a loan guarantee program with a negative-credit subsidy receiving no appropriation from Congress. In FY 2007, the Program office issued nine commitments for rural, suburban, and urban hospitals ranging from a tiny critical access hospital in Colorado to a nationally recognized 2,242-bed health system in New York City.

One of the commitments was issued for Delta Regional Medical Center (DRMC) in Greenville, Mississippi. DRMC, a 398-bed hospital, is located in one of the most medically underserved areas in the nation. The hospital's primary and secondary service areas have the highest disease incidence in the nation of diabetes, hypertension, and cardiac disease. FHA's commitment to the hospital will allow it to refinance debt and make critical infrastructure improvements that will bring enhanced health care services to the region's residents. Due to the location of the facility and the characteristics of the service area, it is unlikely that the hospital would have been able to make these needed improvements, including a major upgrade of the hospital's emergency department, without the commitment from FHA.

Data discussion. There are no complex data requirements to measure this result. The period of the data (number of commitments issued) is FY 2007. The data are complete, valid, and reliable.

C3.7: Section 4 funding will stimulate community development activity totaling ten times the Section 4 investment.

Background. The Section 4 program emerged from a unique and unprecedented partnership initiated in 1991, the National Community Development Initiative, which is a consortium of national foundations, financial institutions, and HUD. This initiative is now known as the Living Cities/National Community Development Initiative and the program works through the two largest intermediaries serving the nonprofit community development industry, the Enterprise Community Partners, Inc., and the Local Initiatives Support Corporation. Based on the success of the National Community Development Initiative, Congress directed HUD to join in 1994 for the second round at this early stage of the partnership. In 1997 Congress expanded the Section 4 program for urban and rural capacity building beyond the National Community Development Initiative.

This indicator measures the level of community development activity generated, leveraged, or supported by Section 4 funding. Most community development activities are expected to involve real estate development, including housing, economic development, and community facilities. The FY 2007 goal is to ensure that the ratio of the total cost of community development activities (net of Section 4 support for that activity) to the investment of Section 4 funding shall equal or exceed 10:1.

Results, impact, and analysis. In FY 2007, Enterprise Community Partners and Local Initiatives Support Corporation were paid $29 million in vouchers by HUD, which stimulated community development totaling $1.8 billion in the areas where Section 4 was implemented. This equates to a 63:1 investment ratio, greatly exceeding the goal of a 10:1 ratio. This ratio is probably not sustainable for FY 2008, as the program is undergoing an important change. It is being run as a competitive program for the first time in FY 2007 among the four eligible applicants: Enterprise, Local Initiatives Support Corporation, Habitat for Humanity, and YouthBuild USA. As such, Section 4 awards will not be made until 2008.

Resources and performance link. Funding for this initiative has been stable at approximately $30 million in recent years. Significant results are accomplished as the program has been highly effective in exceeding its leveraged resource target.

Data discussion. Data were drawn from actual production of affordable housing development in cities where Section 4 funds were awarded. Investment values grew in part due to significant appreciation of development costs in urban and rural areas, in particular the cost of land and building acquisition, labor, insurance, and some materials.

C4 End chronic homelessness and move homeless families and individuals to permanent housing.

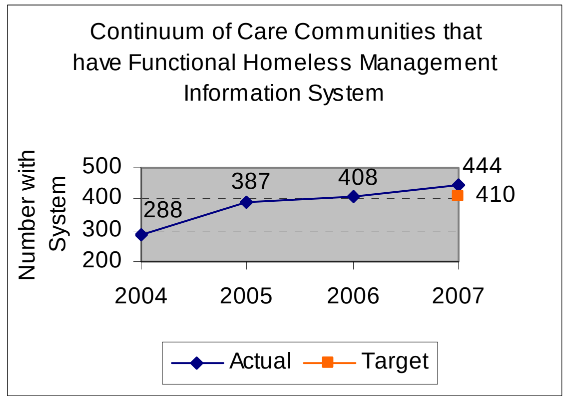
C4.1: At least 410 functioning Continuum of Care communities will have a functional Homeless Management Information System by FY 2007.

Background. This indicator measures the number of Continuum of Care communities that have implemented a Homeless Management Information System. Congress has directed HUD on the need for data and analysis to measure the extent of homelessness and the effectiveness of the McKinney-Vento Homeless Assistance Act programs. HUD directed Continuum of Care communities to implement Homeless Management Information Systems, in order to achieve the outcome of improving our understanding of the nature and the extent of homelessness at national and local levels by providing community-level, aggregate information to HUD. The Congressional directive includes developing unduplicated counts of clients served at the local level, analyzing patterns of use of people entering and exiting the homeless assistance system, and evaluating the effectiveness of these systems.

To ensure that all Continuum of Care communities successfully implement a Homeless Management Information System, HUD has undertaken an extensive training and technical assistance initiative. Between 2001 and 2006, HUD's Homeless Management Information System Technical Assistance aimed to increase the number of Continuum of Care communities with a functioning system by focusing resources and efforts on planning, implementation, and system operation and management. Because so many communities have begun implementing Homeless Management Information Systems, in 2007, the focus of technical assistance has shifted to ensuring data quality and completeness in existing systems. In addition to collecting data for other reports, such as the Annual Progress Report, the Continuum of Care can use the data to inform local policy decisions, measure performance, and prioritize resource allocation.

Program website. http://www.hud.gov/offices/cpd/homeless/hmis/ and http://www.hmis.info

Results, impact, and analysis. HUD exceeded this goal. Based on reporting in the 2007 Continuum of Care Homeless Assistance Programs competition, 444 Continuum of Care communities, or 96 percent, reported that they were entering data in the community's Homeless Management Information System as of September 2007. This result exceeded the goal for FY 2007 of 410 Continuum of Care communities with a functioning Homeless Management Information System, which was revised upwards from 395. It further represents an increase over the result reported in FY 2006 of 408 Continuum of Care communities with a functioning Homeless Management Information System. HUD is working toward capturing more standardized bed coverage information in addition to increasing the number of Continuum of Care communities with a functioning system. HUD will be changing this indicator in the future to reflect this increasing focus on data quality.



Resources and performance link. Historically, Homeless Assistance Grants appropriation levels have increased steadily, which has contributed significantly to HUD's ability to achieve this goal. In FY 2007, $3.5 million in technical assistance funds was available to help communities implement Homeless Management Information Systems. Consistent funding for the Homeless Management Information Systems technical assistance initiative ensures that important resources are available for helping homeless providers across the nation as they implement Homeless Management Information Systems, improve data quality in existing systems, and work to measure the extent of homelessness in their communities. The result is an increase in the number of Continuums of Care that are able to implement Homeless Management Information Systems.

Data discussion. Rated questions on the FY 2007 McKinney-Vento Homeless Assistance Grants application ask for information about Homeless Management Information Systems. This is the sixth time HUD has collected data on local Homeless Management Information Systems and the fifth time scoring points have been awarded based on progress in implementing local systems. In conjunction with this reporting, HUD has undertaken technical assistance activities that have provided confidence in the validity of the data.

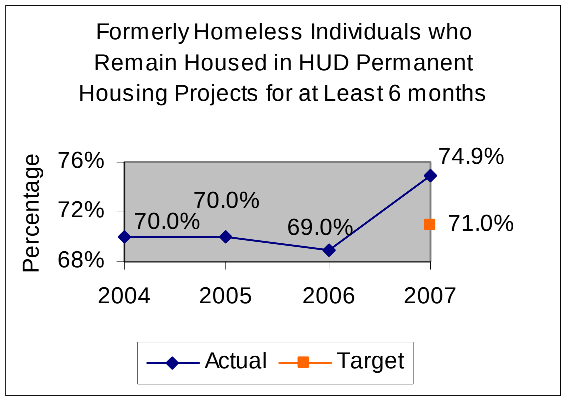
Privacy, confidentiality, and security are significant issues that Continuum of Care communities must overcome when implementing a Homeless Management Information System at the local level. These challenges have been further compounded by the passage of the 2005 Violence Against Women Act, which restricts participation in Homeless Management Information Systems for HUD McKinney-Vento funded domestic violence providers.

C4.2: The percentage of formerly homeless individuals who remain housed in HUD permanent housing for at least six months will be at least 71 percent.

Background. The ultimate goal of homeless assistance is to help homeless families and individuals achieve the outcome of staying in permanent housing and obtaining self-sufficiency. This measure tracks the number of formerly homeless persons who remain in permanent housing for at least six months in beds funded by HUD under the McKinney-Vento Homeless Assistance Act.

Congress requires that 30 percent of HUD's homeless assistance funding is allocated to permanent housing, and HUD's programs and policies support this requirement. One of HUD's programs, Shelter Plus Care, provides permanent housing assistance while communities secure an equal level of funding for a variety of supportive services from other sources. This combination ensures that residents receive the housing and services they need to maintain stable permanent housing and make progress towards self-sufficiency. Other HUD programs that provide permanent housing include the Supportive Housing Program and the Moderate Rehabilitation/Single Room Occupancy program, which help meet other needs related to homelessness. Many communities are increasing their permanent housing stock as a direct result of the statutory requirement and HUD's emphasis on permanent housing. This increases the number of available housing units and allows communities to house more homeless persons.

Program website. http://www.hud.gov/offices/cpd/homeless/programs/index.cfm



Results, impact, and analysis. In FY 2007, HUD exceeded this goal with 74.9 percent of formerly homeless persons remaining in permanent housing for at least six months. This is an increase from the result reported in FY 2006 of 73.5 percent. This achievement can be attributed to HUD's emphasis on increasing the number of permanent housing units available for people who are homeless and combining these units with appropriate supportive services. HUD emphasizes the goal of creating new permanent housing in national broadcasts, the Notices of Funding Availability, and the Homeless Assistance Grant application. Since 2006, HUD has published this goal in its annual Homeless Assistance Grant application, and required communities to report on the steps they are taking to achieve this goal at the local level.

Resources and performance link. The FY 2007 funding was $1.442 billion compared to $1.340 billion in FY 2006. The FY 2008 requests would provide $1.586 billion, an increase of $144 million over FY 2007. Historically, Homeless Assistance Grants appropriation levels have increased steadily, which has contributed significantly to HUD's ability to achieve this goal. The increases in funding ensure that existing permanent housing programs, as well as transitional housing programs that prepare homeless persons for permanent housing, will be able to continue operating, while new programs can be added in communities with remaining need. Further, the Congressional directive requiring that 30 percent of annual homeless assistance funding be allocated to permanent housing ensures a significant level of resources devoted to the development and maintenance of permanent housing. HUD's Samaritan Bonus initiative increases the link between funding levels and new permanent housing. This initiative provides communities with "bonus" funding, above their regular allocations, in order to develop new permanent housing units.

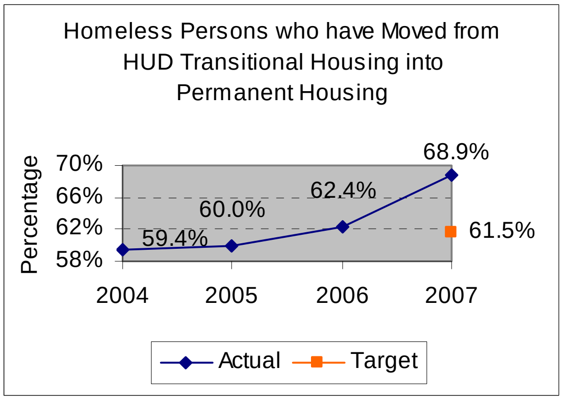
Data discussion. Data for this indicator are collected from HUD's Annual Progress Report, which each homeless assistance project submits at the end of the operating year. This report represents a means of reporting on the outcomes of HUD-funded homeless assistance projects. Field staff monitors grantees on a sample basis to assess quality of data in grantee reports. HUD intends to improve reliability of this measure by developing an electronic Annual Progress Report that can be generated by the local Homeless Management Information System. This will eliminate transaction lag of the paper-based reporting system and increase response rates. Because projects begin annual operations at different times, the data reflect projects that ended their operational year in 2007 and whose Annual Progress Reports were entered in HUD's database by September 30, 2007. Due to the varied operation dates for projects, the data for all Annual Progress Report-based indicators represent at least 38 percent of all projects operating in 2007. An independent assessment in 2004 showed the Office of Community Planning and Development Annual Progress Report performance indicator data passed quality tests for validity, completeness, and consistency.

C4.3: The percentage of homeless persons who have moved from HUD transitional housing into permanent housing will be at least 61.5 percent.

Background. The ultimate objective of homeless assistance is to help homeless families and individuals achieve the outcome of obtaining permanent housing and self-sufficiency. An important stepping stone toward permanent housing for many homeless persons is the availability of transitional housing with supportive services to help them achieve self-sufficiency. This measure tracks the number of homeless persons who move from HUD-funded transitional housing projects into permanent housing or other supportive housing. The needs of the homeless subpopulations within a particular community are varied. Some need extensive supportive services while in permanent housing to maintain self-sufficiency. For others, market-rate housing with minimal services is adequate.

Program website. http://www.hud.gov/offices/cpd/homeless/programs/index.cfm

Results, impact, and analysis. In FY 2007, HUD exceeded this goal of 61.5 percent, with 68.9 percent of homeless persons moving from transitional housing into permanent housing. This is an increase from the result reported in FY 2006 of 62.4 percent. HUD also continues to provide the supportive services necessary to move people who are homeless from transitional housing to permanent housing, allowing more vacancies for homeless persons in need of transitional housing and accompanying supportive services. Since 2006, HUD has published this goal in its annual Homeless Assistance Grant application and required communities to report on the steps they are taking to achieve this goal at the local level.



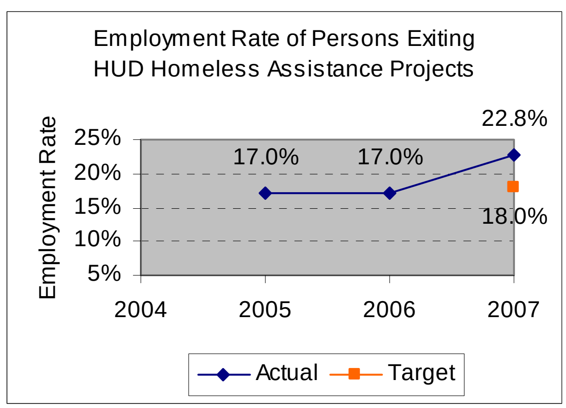
Resources and performance link. The FY 2007 funding was $1.442 billion compared to $1.340 billion in FY 2006. The FY 2008 requests would provide $1.586 billion, an increase of $144 million over FY 2007. Historically, Homeless Assistance Grants appropriation levels have increased steadily, which has contributed significantly to HUD's ability to achieve this goal. The increases in funding ensure that existing transitional housing programs can continue offering quality services to persons who need the support in order to increase their skills and employment, and move to permanent housing. At the same time, increases in funding allow new programs to be added in communities with remaining need.

Data discussion. Data for this indicator are collected from HUD's Annual Progress Report, which each homeless assistance project submits at the end of the operating year. This report represents a means of reporting on the outcomes of HUD-funded homeless assistance projects. Field staff monitors grantees on a sample basis to assess quality of data in grantee reports. HUD intends to improve the reliability of this measure by developing an electronic Annual Progress Report that can be generated by the local Homeless Management Information System. This will eliminate transaction lag of the paper-based reporting system and increase response rates. Because projects begin annual operations at different times, the data reflect projects that ended their operational year in 2007 and whose Annual Progress Reports were entered in HUD's database by September 30, 2007. Due to the varied operation dates for projects the data for all Annual Progress Report-based indicators represent at least 38 percent of all projects operating in 2007. An independent assessment in 2004 showed that the Office of Community Planning and Development Annual Progress Report performance indicator data passed quality tests for validity, completeness, and consistency.

C4.4: The employment rate of persons exiting HUD homeless assistance projects will be at least 18 percent.

Background. Stable employment is a critical step for homeless persons in achieving the outcome of greater self-sufficiency. HUD encourages communities to provide comprehensive housing and services to homeless individuals and families, which can include employment training and job search assistance. This indicator tracks the number of adult clients who are employed upon exit from HUD-funded homeless assistance projects. For example, under the Supportive Housing Program, employment assistance combined with case management has allowed many communities to focus their services efforts on achieving improved employment outcomes. This measure helps HUD gauge progress toward the goal of improved employment for homeless persons.

Program website. http://www.hud.gov/offices/cpd/homeless/index.cfm



Results, impact, and analysis. In FY 2007, HUD exceeded this goal, as the number of homeless persons receiving employment income upon exit was 22.8 percent. This result is an increase over the result reported in FY 2006 of 17 percent. HUD will continue to monitor the employment rate in its Annual Progress Report. The percentage of homeless funds used for housing activities is increasing each year compared to the percentage used for supportive services. With limited resources available, HUD's emphasis on housing activities has achieved efficiencies by encouraging and rewarding Continuum of Care communities that create housing and seek services such as employment training from mainstream service providers. Since 2006, HUD has published this goal in its annual Homeless Assistance Grant application and required communities to report on the steps they are taking to achieve this goal at the local level.

Resources and performance link. The FY 2007 funding was $1.442 billion compared to $1.340 billion in FY 2006. The FY 2008 requests would provide $1.586 billion, an increase of $144 million over FY 2007. Historically, Homeless Assistance Grants appropriation levels have increased steadily, which has contributed significantly to HUD's ability to achieve this goal. The increases in funding ensure that existing programs that provide homeless persons with employment training and increased skills for self-sufficiency will be able to continue offering quality services, while new programs can be added to help more homeless persons gain skills to become employed. In this way, increases in funding enable more communities and HUD to achieve this goal.

Data discussion. Data for this indicator are collected from HUD's Annual Progress Report, which each homeless assistance project submits at the end of the operating year. This report represents a means of reporting on the outcomes of HUD-funded homeless assistance projects. Field staff monitors grantees on a sample basis to assess quality of data in grantee reports. HUD intends to improve reliability of this measure by developing an electronic Annual Progress Report that can be generated by the local Homeless Management Information System. This will eliminate transaction lag of the paper-based reporting system and increase response rates. Because projects begin annual operations at different times, the data reflect projects that ended their operational year in 2007 and whose Annual Progress Reports were entered in HUD's database by September 30, 2007. Due to the varied operation dates for projects, the data for all Annual Progress Report-based indicators represent 38 percent of all projects operating in 2007. An independent assessment in 2004 showed that the Office of Community Planning and Development Annual Progress Report performance indicator data passed quality tests for validity, completeness, and consistency.

C4.5: Create 4,000 new permanent housing beds for chronically homeless persons.

Background. The chronically homeless are often the most visible and difficult-to-serve homeless population. The coordination of housing and supportive services is crucial to the outcome of improving self-sufficiency, stability, and ultimately breaking the cycle of chronic homelessness. The creation of new permanent housing units for this population is one of HUD's primary strategies for working toward the goal of ending chronic homelessness. This indicator measures the number of new permanent housing units for this population created with Homeless Assistant Grant funds in 2007.

Congress requires that 30 percent of HUD's homeless assistance funding is allocated to permanent housing, and HUD's programs and policies support this effort. HUD offers "bonus" funding to communities proposing new permanent housing projects that serve chronically homeless persons. Many communities have taken advantage of this incentive to increase the permanent supportive housing stock that is designated for chronically homeless persons. By providing a permanent solution, chronically homeless persons will not need to continue to cycle from the streets to shelters, receiving stop-gap assistance that does not address their primary needs—permanent housing and supportive services.

Program website. http://www.hud.gov/offices/cpd/homeless/index.cfm

Results, impact, and analysis. In FY 2007, HUD funds resulted in the funding of 3,865 new permanent housing beds for chronically homeless persons, nearly meeting the goal by creating 96.6 percent of the target number of beds. This is the first year of reporting on this goal in the Performance Accountability Report. However, HUD began tracking this information in FY 2006. Although HUD did not meet this year's goal, combining data from FY 2006 and FY 2007 shows HUD continues to be on track to meet the larger goal of creating 20,000 new permanent housing beds for chronically homeless persons in five years. This achievement can be attributed to HUD's emphasis on increasing the number of permanent housing units available for people who are homeless, and combining these units with appropriate supportive services. HUD emphasizes the goal of creating new permanent housing in national broadcasts, the Notices of Funding Availability, the Homeless Assistance Grant application, and the Samaritan Bonus initiative.

Resources and performance link. Historically, Homeless Assistance Grants appropriation levels have increased steadily, which has contributed significantly to HUD's ability to achieve this goal. In FY 2007 funding was $1.442 billion, compared to $1.340 billion in FY 2006. The FY 2008 requests would provide $1.586 billion, an increase of $144 million over FY 2007. Increased appropriations allow HUD to both renew existing projects and to fund new permanent housing projects for chronically homeless persons, primarily through the Samaritan Bonus initiative. New funding has a direct impact on HUD's ability to create new beds annually. Further, the Congressional directive requiring that 30 percent of annual homeless assistance funding be allocated to permanent housing ensures a significant level of resources devoted to the development and maintenance of permanent housing.

Reasons for shortfall/Plans and schedule to meet the goal. Even with the budget increases that this program has received in the past, it remains a challenge to fund the increasing number of renewal projects that come in for funding each year, as well as enough new permanent housing for chronically homeless persons to meet this goal. Each year of the Continuum of Care competition, the number of eligible renewal projects increases, and these projects must be funded by HUD in order to ensure continuity of service to homeless clients. Along with the increasing renewal demand, the percentage of the Homeless Assistance Grant annual appropriation committed to these projects expands as well. Under the Samaritan Bonus initiative, new permanent housing projects for chronically homeless persons are the priority to receive funding among new projects, and HUD plans to continue this incentive program to encourage communities to continue to serve this difficult population. HUD will also continue to emphasize this goal in the annual Homeless Assistance Grant application, Notice of Funding Availability, and national broadcast. However, additional appropriations are needed to create even more new permanent housing for chronically homeless persons, and to ensure that HUD can meet this goal each year.

Data discussion. Data for this indicator come from HUD's 2006 homeless assistance grant competition that were awarded during FY 2007, and reflect the number of permanent housing beds for chronically homeless persons created using 2006 Continuum of Care awards. Most of the new permanent housing beds created from funds awarded in the 2006 Continuum of Care competition were actually created in 2007.

C4.6: The percentage of Housing Opportunities for Persons With AIDS program clients who maintain housing stability, avoid homelessness, and access care will reach 80 percent by 2008.

Background. The Department has successfully established a client outcome goal in using targeted federal resources under the Housing Opportunities for Persons With AIDS (HOPWA) program. This goal implemented the use of client outcomes in assessing the status of their housing situations in quantifying the benefits received through the program's assistance. This outcome indicator reflects the Department's priority for providing stable and permanent housing assistance to one of our country's most vulnerable populations—very low-income persons who are living with HIV or AIDS, and face risks of homelessness and other challenges. The housing assistance also serves as a base to access other care and support. HOPWA programs provide housing resources and related support through 120 formula and 103 competitive grants.

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

Results, impact, and analysis. HUD is on track to achieve this FY 2008 goal. Housing Opportunities for Persons With AIDS program project reports indicate that efforts to date are exceeding the goal of achieving housing stability for 80 percent of program beneficiaries. Data collected under the new client outcome focus in the FY 2006 edition of reporting forms is providing significant insight for the results of the programs that provide Housing Opportunities for Persons With AIDS rental assistance and operate community residences. Ninety-five grantees provided relevant data that applied the new Housing Opportunities for Persons With AIDS client outcome assessment to information available from their operating projects. Where known, these grantee reports indicate that 93 percent of clients receiving Housing Opportunities for Persons With AIDS housing support have stable housing arrangements or efforts helped to reduce risks of homelessness. These results demonstrate that grantees are exceeding the national performance goals set to positive results for 80 percent of beneficiaries in demonstrating stable housing arrangements and reduced risks of homelessness.

Throughout FY 2007, Housing Opportunities for Persons With AIDS program grantees implemented the use of the new performance focus on outcomes, including assisting over 850 sponsors collect data on their projects efforts. In February 2007, the program provided guidance and further collaborated on these reporting efforts at the first national grantee training in four years. The training was specifically tailored to enhancing performance reporting and solicited grantee feedback in order to improve grantee understanding of the reporting requirements and to consider edits to the reporting formats. Through this effort, along with solicitation for public comments, the Department has revised the existing reporting requirements to be issued for 2008 (pending OMB clearance). The 2006 edition of the reporting forms and updated releases of the CPD data system incorporated the program's long-term performance focus on client outcomes. This new tool helps to assess Housing Opportunities for Persons With AIDS program accomplishments in assisting clients achieve and maintain housing stability, avoid homelessness, and improve access to HIV treatment and other care. In addition, this new reporting effort enables grantees to aggregate program results along with other CPD programs to evidence the effectiveness of the community-wide coordination and delivery of these federal resources. Once issued, the FY 2008 edition of these forms will further strengthen this focus by clarifying some of the reporting elements. To date, 147 grantees have demonstrated results using the new format, and others will shortly report having completed a full operating year under the requirements.

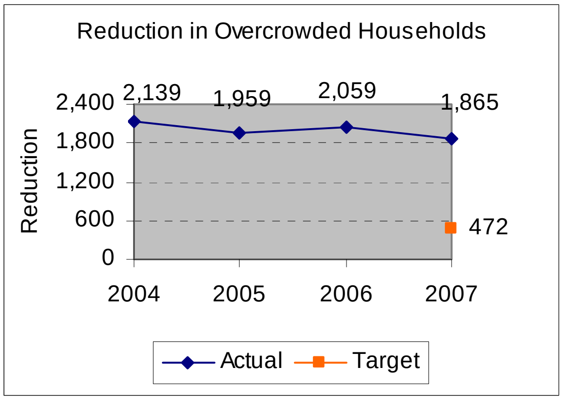
Resources and performance link. Housing Opportunities for Persons With AIDS grantees receive funding in formula allocations or by competitive selection. For FY 2007, $286 million was appropriated for Housing Opportunities for Persons With AIDS activities. These new resources to be used over the next three years become available to communities through the Consolidated Planning process and through competitive grant selection and award procedures. Current year performance reporting covers the use of prior year funding made available through similar means, involving 120 formula and 103 competitive grants that were operating in FY 2007. Assessment of performance is required for both types of grants, as implemented in standard program reporting forms, the Consolidated Annual Performance and Evaluation Report for formula grants along with related data elements in Integrated Disbursement and Information System and an Annual Progress Report for competitive grants. In addition to documents and guidance available on the website, technical assistance is provided to grantees to implement reporting requirements, including data collection and verifications efforts. As a result, the Department has been able to collect a significant new level of information on outcomes for beneficiaries of the Housing Opportunities for Persons With AIDS assistance. This supplements financial and program output information that has been collected from the program's inception in 1992. Along with related research on program results, these data indicate substantial success in grantee reporting compliance and in using program funds with other resources to address needs in the recipient communities.

Data discussion. The data for this indicator come from Annual Performance Reports and the Integrated Disbursement and Information System—HOPWA module. A substantial new level of information is now available on program achievements in reporting on outcomes. In addition, as part of collaborations during this first implementation year, grantees tested the new forms for client outcomes, and a number of edits have been proposed to be issued in FY 2008 that will enhance the effectiveness of the reporting. Data collection efforts to be made in FY 2008 will clarify results for short-term project efforts and demonstrate improved access to care results.

C4.7: The number of overcrowded households in Indian Country shall be reduced by an additional one percent of the FY 2003 baseline during FY 2007.

Background. The Department has identified overcrowding in American Indian and Alaska Native households as a national concern. Overcrowding in Indian Country is generally caused by a lack of available affordable housing and can lead to a range of health and social problems. The Indian Housing Block Grant program is designed to provide more housing and thus relieve overcrowding. This supports the Department's strategic goals of providing permanent housing to homeless families and mitigating housing conditions that threaten health. During FY 2003, the Office of Native American Programs and several participating tribes developed an estimate of the extent of overcrowding in Indian Country, based partly on Census data. They concluded that an estimated 47,169 households were overcrowded in 2003. The Department's goal has been to reduce the number of overcrowded households by one percent of this baseline each year.

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



Results, impact, and analysis. In FY 2007, the Indian Housing Block Grant program funded the construction of 1,865 new affordable housing units, which significantly exceeds the goal of 472, or one percent of the 2003 baseline. Since HUD's Performance and Accountability Reports were published in FY 2005 and FY 2006, updated information has been aggregated in HUD's database. As of October 2007, the revised accomplishment for FY 2005 is 1,959, and for FY 2006, 2,059. Since FY 2003, the original baseline of 47,169 overcrowded households has been reduced by 9,434 households (20 percent), to 37,735 overcrowded households.

Although targets have been consistently exceeded, there is concern that, until the decennial Census is reported, there is no reliable way to verify that the overall overcrowding situation in Indian Country is improving. Factors such as population growth may be offsetting the gains made by this program to relieve overall levels of overcrowding.

Grantees must report annually, no later than 90 days after their program year ends. The results reported herein include the most recent grantee fiscal year report received.

Resources and performance link. Over the last five years, the average appropriation for this program has been $633 million, a substantial investment in improving housing in Indian Country. For most of its grantees, the Indian Housing Block Grant is the sole source or the main source of funding for affordable housing. However, affordable housing projects in Indian Country tend to be long-term, and HUD has not observed performance levels immediately corresponding to changes in funding levels. Nevertheless, such corresponding changes would be inevitable over a course of several years. Also, performance levels for this indicator may not closely correspond to funding levels because grantees may choose to spend grant funds on other eligible activities besides new construction.

Data discussion. Data on overcrowding come from the decennial U.S. Census. Data on the number of new housing units built are collected from more than 500 grantees' Annual Performance Reports, captured in the Performance Tracking Databases of each of the six Area Office of Native American Programs, and then aggregated into a national database at headquarters. Accomplishments reported in this document will likely require annual revision as grantees continue reporting and submitting updates to their Annual Performance Reports. Indian Housing Block Grant recipients have 90 days after their fiscal years end to report. Recipients whose fiscal year ends on September 30 report in the next fiscal year.

The current measurement method assumes that each new housing unit constructed relieves overcrowding by one household. HUD recognizes this is an imperfect method to measure overcrowding, but a more precise, cost effective, and feasible measurement tool has not yet been identified. It would be cost prohibitive to conduct an annual census, and so the exact number of the new units that specifically go toward reduction of the overcrowded household percentage cannot be determined. A study was conducted last year to examine the feasibility of alternative measurement methods, and several are being considered. A joint tribal/HUD working group has made recommendations to improve the planning and reporting forms that grantees are required to submit annually. The improved forms will be streamlined, but will collect more information relevant to overcrowding and other housing conditions.

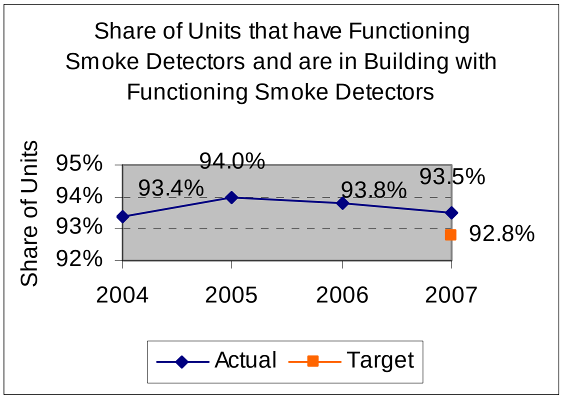
C5 Address housing conditions that threaten health.

C5.1: The share of units that have functioning smoke detectors and are in buildings with functioning smoke detectors will be 92.8 percent or greater for multifamily housing.

Background. This indicator measures the share of units that are protected by a fully functional smoke detection system, defined as smoke detectors that are observed to be present both in the unit as well as the building in which the unit is located. Functional smoke detection systems in common areas of a building are critical to overall fire safety. The National Fire Protection Association reports that although smoke alarms cut the chances of dying in a fire by 40 to 50 percent, about one-quarter of U.S. households lack working smoke alarms. HUD's Real Estate Assessment Center's physical inspections of public and assisted housing include checks of fire safety features including the presence of operational smoke detectors in housing units, common areas, and utility areas of buildings.

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

Results, impact, and analysis. The target was met. As of the end of FY 2007, 93.5 percent of HUD-involved assisted multifamily units (2,646,113 of 2,474,444 are projected to have working smoke detectors based upon statistical sampling) in privately-owned properties had functioning smoke detectors and were in buildings with functioning smoke detection systems. This exceeds the goal of 92.8 percent by 0.7 percentage points.



These results show that the share of HUD-assisted households that are adequately protected with smoke detectors significantly exceeds the three-quarter share of all U.S. households who are protected. The Department's attention to physical conditions in the housing stock is believed to have motivated improvements in management by housing providers. The Department anticipates that it will also meet the FY 2008 target.

Resources and performance link. For multifamily properties, funding is provided through the Project Based Rental Assistance Account. Funding has been on a current services basis in recent years.

For the Department's privately owned multifamily properties, the assessment of fire safety hazards, including the operation of smoke detectors, is part of the physical inspection. In FY 2007, over 12,000 projects were inspected by the Department, or by the mortgagee, at an average cost to the Department of $324 per inspection, for a total cost of $2.3 million for 7,225 inspections the Department funded. In FY 2007, the average cost for an inspection fell $73 to $324 from $397 in FY 2006. Through the implementation of its Uniform Physical

Inspection Standards providing for timely, consistent, objective inspections, the Department insures the quality and safety in the HUD involved housing.

Data discussion. Data for this indicator are from the Real Estate Assessment Center's Physical Assessment Subsystem, based on a sample of units from each project, and weighted to represent the entire stock. For private multifamily properties, results for FY 2007 reflect the most recent inspections available as of September 30, 2007. Properties are inspected at intervals of one, two, or three years, depending on the results of the previous inspection, so a substantial share of properties do not receive a new inspection annually. An independent assessment in 2002 showed that HUD's Physical Assessment Subsystem data passed four-sigma quality tests (reflecting less than 6,210 errors per million) for validity, completeness, and consistency.

C5.2: The number of children under the age of six who have elevated blood lead levels will be less than 240,000 in FY 2007.

Background. This outcome indicator responds to the President and Secretary's priority effort to eliminate lead poisoning in children as a major public health problem by 2010. Lead poisoning is the number one environmental disease affecting children. Elevated blood lead levels defined as being at or above 10 micrograms per deciliter are more common among low-income children, urban children, and those living in older housing (see research study available online at www.cdc.gov/mmwr/preview/mmwrhtml/mm5420a5.htm). These children, especially those less than three years old, are vulnerable to permanent developmental problems because of the well-documented effect of lead on developing nervous systems. The number of children under the age of six who have elevated blood lead levels will be less than 240,000 in FY 2007.

Program website. www.hud.gov/offices/lead

Results, impact, and analysis. The target was met. Data from the Centers for Disease Control and Prevention's National Health and Nutrition Examination Survey indicate that 235,000 children under the age of six had elevated blood lead levels in the most recent sampling period. This is below the target of 240,000 for such children, and continues the downward trend of previous years. This result, reflecting 2000-2003 data, also compares with the 270,000 reported in 2006, reflecting 1999-2002 data, and demonstrates that HUD is on target to eliminate childhood lead poisoning as a major public health hazard by 2010. This would put a stop to a totally avoidable epidemic—lead poisoning caused by housing— by the decade's end. At that point, a national effort that ensures the integrity of lead-based paint in homes will avoid the potential for a rebound (as happened with tuberculosis) and keep our children lead safe. Between 1991 and 1994 there were 890,000 children under age six with elevated blood lead levels.

HUD's efforts, in partnership with the Centers for Disease Control and Prevention, Environmental Protection Agency, and other agencies, to control lead hazards in housing through grants and enforcement of HUD's lead regulations, expand outreach on this issue, and expand the required public/private infrastructure to implement the program, have achieved this reduction.

Resources and performance link. The results are directly linked to the accomplishments of HUD grantees under its lead grant programs and of HUD's regulatory enforcement program. The grants provide communities with the funding resources and technical information to reach out to property owners and the lead hazard evaluation and control industries to establish and implement programs that make homes lead safe. The regulatory enforcement program targets violators and reaches agreements with them to control lead hazards in housing in addition to paying fines. Funding for the lead grant programs and the accompanying lead technical contracts has been relatively stable over the past several years, at about $142 million, after a decrease from $159 million in FY 2005. The number of housing units that can be made lead safe through both the grant and enforcement programs is a direct function of the funding level.

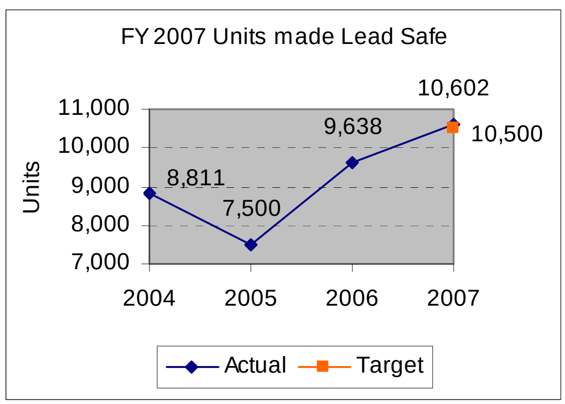
Data discussion. The National Health and Nutrition Examination Survey, conducted by the Centers for Disease Control and Prevention, uses actual physical examinations of a large, nationally representative sample of children to determine blood-lead levels, among other things. This survey, the only national survey of children's blood lead levels, is regarded as providing the best national estimate of a number of health outcomes, and incorporates a variety of quality control and verification procedures that make it reliable. The Centers for Disease Control and Prevention's long-term quality control data for blood lead tests validate the survey results. The Childhood Blood Lead Surveillance program, which supports state blood lead surveillance efforts, also includes a validation component (see www.cdc.gov/nceh/lead/surv/surv.htm). HUD does not verify the survey results independently; doing so would unnecessarily duplicate the Centers for Disease Control and Prevention's verification procedures. The survey cannot identify the source of elevated blood lead levels.

C5.3: As part of a 10 year effort to eradicate lead hazards, the Lead Hazard Control Grant program will make 10,500 units lead safe in FY 2007.

Background. The Lead Hazard Control Grant program goal for FY 2007 was to make 10,500 housing units lead safe as a result of lead hazard control work as verified by independent clearance examination. Lead hazard control and related treatment efforts are essential components of eradicating lead poisoning of children as a major public health problem by 2010, a Presidential goal. The Office of Healthy Homes and Lead Hazard Control provides grants to state and local government agencies, and to private sector organizations, to control lead and housing-related hazards in privately owned, low-income housing. Lead dust associated with housing is the major pathway by which children are exposed to lead-based paint. The primary output measure of the program is the number of homes made lead-safe by the grantee.

Program website. www.hud.gov/offices/lead

Results, impact, and analysis. The target was met. In FY 2007 the program exceeded its goal of making 10,500 housing units lead-safe by making 10,602 housing units lead-safe. In FY 2006, the program made 9,638 housing units lead safe; the FY 2007 result was 10 percent higher. The program has made a significant contribution toward the Presidential goal to eliminate lead poisoning in children as a major public health problem by 2010; external factors in the housing market (for example, normal rates of renovation) appear to have had a major impact.



The FY 2007 data were for housing units cleared during the fiscal year after lead hazard work had been performed in them. The program has been successful by providing communities with the funding resources and technical information to reach out to the local lead hazard evaluation and control industries and housing owners so they can implement lead hazard control programs. A rigorous scientific evaluation of the program found that the grant program hazard control methods reduce the blood lead levels of children occupying treated units and also significantly reduce lead dust in treated homes.[1] HUD expects the performance of grantees to continue to increase in FY 2008 as a result of increasing contractor and local government experience and technical advances, even with funding in FY 2007 having been the same as in FY 2006.

Resources and performance link. The results are directly linked to the accomplishments of HUD grantees under the lead hazard control grant programs. The grants provide communities with the funding resources and technical information to reach out to the community and the lead hazard evaluation and control industries so they can establish and implement programs that make homes lead safe. Funding for the lead hazard control grant programs has been relatively stable over the past several years, at about $134 million, after a decrease from $151 million in FY 2005. The number of housing units that can be made lead safe through the grant programs is a direct function of the funding level, with a lag reflecting the three-year performance period of the grants.

Data discussion. This measure uses the Office of Healthy Homes and Lead Hazard Control administrative data derived from grant agreements, quarterly and final reports collected from grantees by web-based reporting, as well as from monitoring. Reports provide detailed quantitative and qualitative information regarding progress, achievements, and barriers to performance, which are required to maximize grantee performance and to protect the largest number of children possible. The reporting system is supplemented by telephone and written communication, as well as on-site monitoring by HUD field and Headquarters staff, and quality assurance checks, including reviewing post-hazard control clearance reports for all units, and reviewing invoice documentation in detail for each grantee at least annually (plus as needed on a targeted basis). The data are considered fully reliable and complete. Since the inception of the formalized Quarterly Performance Reporting System, data reporting errors have been negligible. The data are appropriately conservative in that they underreport the number of housing units made lead-safe as a result of public outreach/education programs; leveraging of other funds; federal, state, and local enforcement efforts; technical studies; and other HUD rehabilitation housing assistance covered by the HUD Lead Safe Housing Rule for assisted housing.

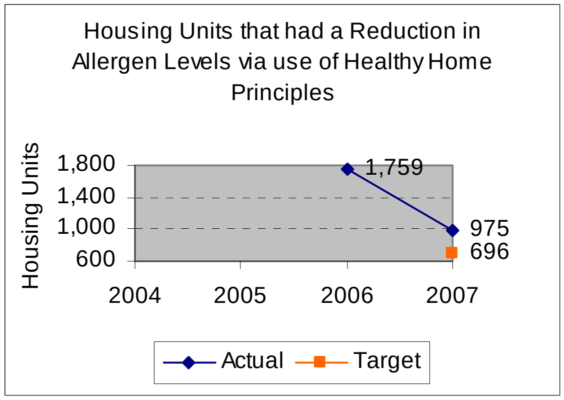
C5.4: At least 696 housing units will have a reduction in allergen levels in FY 2007 through interventions using Healthy Homes principles.

Background. This indicator reflects the Healthy Homes program's emphasis on the mitigation of such asthma triggers as allergens (allergy-inducing substances), which are associated with debris from pets, dust mites, cockroaches, and rodents. The Healthy Homes program contributes to the achievement of HUD's strategic goals by reducing multiple housing-related hazards that result in preventable childhood illnesses and injuries, such as lead poisoning and asthma. This

[1] Dixon, S. et al., "Effectiveness of lead-hazard control interventions on dust lead loadings: findings from the evaluation of the HUD Lead-Based Paint Hazard Control Grant Program," Environmental Research 98 (303-314), 2005.

program gives particular emphasis to the mitigation of asthma triggers, such as mold and allergens in the home. The focus on asthma reflects the widespread and increasing occurrence of asthma in children, and the heavy costs associated with this disease to both families and society. The long-term strategic goal is to reduce allergen levels in 5,000 units by 2011. Achievement of this goal will provide models for disseminating information and guidance about allergen mitigation on a national scale.

Program website. www.hud.gov/offices/lead



Results, impact, and analysis. The target was met. In FY 2007 the program exceeded its goal by reducing allergen levels in 975 housing units. The program exceeded its goal by 40 percent. While a principal focus of the Healthy Homes program is the reduction of asthma triggers, the program addresses a broad range of housing-related safety and health problems (such as fire safety, pest control through integrated pest management with roach traps and gels, repairs to correct plumbing leaks, moisture incursion through building envelopes, lead hazards, proper ventilation of kitchen appliances, and dust control through high efficiency filters and vacuums). As a result, the number of units with allergen reductions varies considerably from year to year, reflective of the variation in Healthy Homes strategies proposed by each year's most competitive grant applicants.

Principal outcomes of the projects undertaken in FY 2007 included increased direct physical interventions in homes; increased public and industry awareness of healthy homes issues obtained through training; preparation and distribution of healthy homes materials to individuals, organizations, and HUD field offices; and developing and publicizing new technologies and protocols for improving housing. HUD expects to meet its FY 2008 target, 787 homes with allergen reductions, an increase of 13 percent from its FY 2007 target.

Resources and performance link. The results are directly linked to the accomplishments of HUD grantees under the healthy homes demonstration grant program. The grants provide communities with the funding resources and technical information to reach out to the community and the housing hazard evaluation and control industries so they can establish and implement programs that make homes safe. One emphasis in the notices of funding availability for this grant program is the reduction in allergen levels in housing, and many grantees include this activity in their scopes of work. Funding for the healthy homes demonstration grants has been stable over the past several years, at about $5 million. The number of housing units that have reductions in allergen levels is a direct function of the funding level, with a lag reflecting the three-year performance period of the grants.

Data discussion. This measure uses the Office of Healthy Homes and Lead Hazard Control administrative data derived from grant agreements, quarterly and final reports collected from grantees by web-based reporting, as well as from monitoring. Reports provide detailed quantitative and qualitative information regarding progress, achievements, and barriers to performance, which are required to maximize grantee performance and to protect the largest number of children possible. The reporting system is supplemented by telephone and written communication, as well as on-site monitoring by HUD field and Headquarters staff, and quality assurance checks, including reviewing post-hazard control clearance reports for all units, and reviewing invoice documentation in detail for each grantee at least annually (plus as needed on a targeted basis). The data are considered fully reliable and complete. Since the inception of the formalized Quarterly Performance Reporting System, data reporting errors have been negligible.

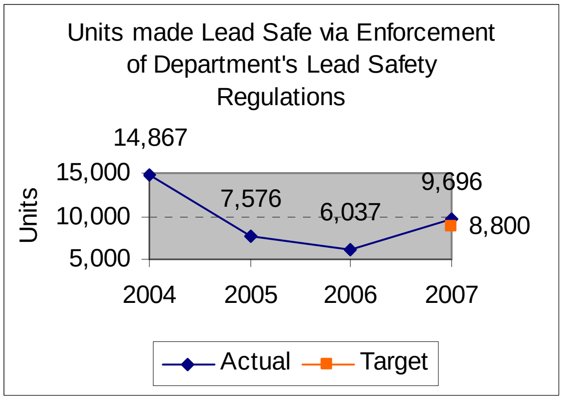
C5.5: As part of a 10-year effort to eradicate lead hazards, at least 8,800 units will be made lead-safe pursuant to enforcement of the Department's lead safety regulations in FY 2007.

Background. Enforcing HUD's lead regulations is an essential component of eradicating lead poisoning of children as a major public health problem by 2010, a Presidential goal. The Department's lead regulations implement three sections of Title X of the Housing and Community Development Act of 1992. These regulations apply to certain "target" housing constructed before 1978.

In FY 2007, the Department obtained commitments by owners/agents to make 9,696 dwelling units lead-safe under Lead Disclosure Rule enforcement settlement agreements and Lead-Safe Housing Rule enforcement actions. The Lead Disclosure Rule (implementing Section 1018 of Title X) requires owners/agents of pre-1978 housing to disclose their knowledge of lead paint and lead paint hazards when leasing or selling target housing. HUD programs providing assistance for target housing are covered by the Lead-Safe Housing Rule (implementing Sections 1012 and 1013). This Rule establishes lead safety requirements for inspecting, maintaining, and renovating target pre-1978 housing, including acceptable methods for performing work that may create or are intended to eliminate lead hazards, and tenant notification of lead evaluation and control activities. Both rules increase the number of lead-safe housing units and, thereby, decrease the number of children under age six with elevated blood lead levels.

Program website. www.hud.gov/offices/lead

Results, impact, and analysis. The target was met. In FY 2007 the program exceeded its goal of making 8,800 housing units lead-safe by making 9,696 housing units lead-safe, which was 10 percent higher than the target. FY 2007 was the first year lead regulatory enforcement was a performance measure, so no comparison against FY 2006 is available. The FY 2007 data reflect cases during the fiscal year. HUD's success in the Lead Disclosure Rule enforcement program reflects its efforts monitoring the Rule's implementation to assure that compliance is the norm rather than the exception. As part of settlement agreements and consent decrees, owners/agents may be required to pay fines, perform lead paint inspections and risk assessments of units, and control any lead hazards identified. HUD's success in enforcing the Lead-Safe Housing Rule also reflects efforts by the HUD Program Offices (Public and Indian Housing, Housing, and Community Planning and Development) to monitor implementation of the Rule as



part of their overall assistance monitoring activities, and their partnering with the Office of Healthy Homes and Lead Hazard Control in taking enforcement actions against Rule violators. HUD expects the number of units made lead safe through regulatory enforcement efforts to continue to increase to meet the increased FY 2008 target of 9,600 housing units.

Resources and performance link. The number of housing units that can be made lead safe through both the regulatory enforcement programs is a direct function of the funding available for staffing and contract support. Staff review tips and complaints from the public, assess housing assistance compliance information from HUD Program Offices, and evaluate health department data provided by the Centers for Disease Control and Prevention on properties with multiple elevated blood lead level cases. They develop regulatory targeting strategies, and then implement the strategies through field site visits, reviews of collected data, and report and enforcement action preparation and processing. Lead technical studies contractors provide such services as conducting field work when staff travel funds and/or time are limited, preparing site visit reports, and organizing enforcement data. Lead technical studies funding has been stable for several years.

Data discussion. The FY 2007 data for the two regulations reflect their distinct regulatory bases. Data for housing units covered by the Lead-Safe Housing Rule are for those cleared for re-occupancy during the fiscal year after lead hazard work had been performed in them, as indicated by clearance reports. Data for housing units covered by the Lead Disclosure Rule are for those for which owners provided written commitments (such as in settlement agreements or consent decrees) during the fiscal year to make the units lead safe at no cost to the federal government. The data are considered fully reliable and complete, because they rely on certified lead professionals (for the Lead-Safe Housing Rule) or on legally binding documents signed by the owners (for the Lead Disclosure Rule).

C5.6: HUD will fully implement the dispute resolution and installation programs in HUD-administered states.

Background. The Manufactured Housing Improvement Act of 2000 (the Act) establishes new responsibilities and procedures for the Department with respect to its role in regulating Manufactured Housing. The Department is to establish installation and dispute resolution programs for manufactured homes within five years of the date of the Act. This will help accomplish the ultimate outcomes of improving the safety and quality of manufactured homes. In FY 2007, the Department will fully implement these programs. HUD's FY 2007 performance goal is to ensure that the two new programs are fully implemented in both the states administering their own programs, and HUD-administered states. In order to meet the Act's milestones, timely review of certifications by the states with their own installation and dispute resolution programs is essential

Program website. http://www.hud.gov/offices/hsg/sfh/mhs/mhshome.cfm

Results, impact, and analysis. HUD's FY 2007 performance goal is to ensure that the two new programs are fully implemented in both the states administering their own programs, and HUD-administered states. To meet the Act's milestones, the Department was to provide timely review of certifications by the states with their own installation and dispute resolution programs.

Resources and performance link. The Manufactured Housing Program is funded solely from the income of manufactured housing fees collected on each transportable unit produced during the fiscal year. With production levels at their lowest point in over twenty years the program collected only $6.56 million in FY 2006, although Congress authorized an appropriation of $13 million. This fee income pays for staff salaries, in addition to payments to states and contracting costs. An operational budget of 50 percent of its appropriated amount reduced program capacity significantly, delaying work on all program activity, including publication of rules and establishment of programs.

Reasons for shortfall/Plans and schedule to meet the goal. The Department did not fully meet its goals for FY 2007. The final rule for the Dispute Resolution Program was published on May 14, 2007. The Department delivered the final rule for the Installation Standards to the Federal Register for publication on September 19, 2007, but it was not published until after the end of the fiscal year.

Data discussion. Accomplishments are assessed through weekly reports submitted to the Assistant Secretary for Housing-Federal Housing Commissioner, and are verifiable by consulting the Federal Register.

Goal D: Ensure Equal Opportunity in Housing

Strategic Objective:

D1 **Ensure access to a fair and efficient administrative process to investigate and resolve complaints of discrimination.**

D2 **Improve public awareness of rights and responsibilities under fair housing laws.**

D3 **Improve housing accessibility for persons with disabilities.**

D4 **Ensure that HUD-funded entities comply with fair housing and other civil rights laws.**

PERFORMANCE REPORT CARD - GOAL D

	Performance Indicators	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2007 Target	Met	Notes
D1	**Ensure access to a fair and efficient administrative process to investigate and resolve complaints of discrimination.**							
D1.1	Increase the percentage of fair housing complaints closed in 100 days to 65 percent, excluding recommended cause, pattern and practice, and systemic complaints.	N/A	77%	73%	63%	65%	✗	
D1.2	Increase the percentage of Fair Housing Assistance Program complaints closed in 100 days to 53 percent, excluding recommended cause and systemic complaints.	N/A	48%	51%	46%	53%	✗	
D1.3	In order to increase the nation's capacity to provide coordinated enforcement of fair housing laws, certify two new substantially equivalent agencies under the Fair Housing Act.	101	103	107	108	108	✓	
D1.4	By the end of FY 2007, at the National Fair Housing Training Academy, a cumulative number of 200 fair housing professionals will have received "five weeks" completion certificates to ensure effective, efficient, and consistent complaint investigations.	N/A	N/A	59	174	200	✗	

PERFORMANCE REPORT CARD - GOAL D

	Performance Indicators	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2007 Target	Met	Notes
D2	**Improve public awareness of rights and responsibilities under fair housing laws.**							
D2.1	Recipients of Fair Housing Initiatives Program education and outreach grants will hold at least 300 public events, to include outreach to faith-based and grassroots organizations, reaching at least 180,000 people.							
	Public events held		405	697	1,486	300	✓	
	People reached at public events	N/A	519,000	250,799	247,201	180,000	✓	
D3	**Improve housing accessibility for persons with disabilities.**							
D3.1	HUD will conduct 80 Section 504 disability compliance reviews or formal Voluntary Compliance Agreement monitoring reviews of HUD recipients and take appropriate corrective action.	113	80	83	124	80	✓	
D3.2	HUD will verify that HUD-assisted units are made accessible as a result of Voluntary Compliance Agreements. Beginning in FY 2007, develop and maintain a database of the accessible units.				Develop and Maintain database	Develop and Maintain database	✓	
D4	**Ensure that HUD-funded entities comply with fair housing and other civil rights laws.**							
D4.1	HUD program offices will conduct limited civil rights monitoring reviews of HUD-funded entities and make referrals to FHEO for review and appropriate action.				13,040	N/A	✓	
D4.2	Conduct 57 compliance reviews or formal monitoring reviews of Voluntary Compliance Agreements, either exclusively or concurrently under Title VI and Section 109, and take appropriate corrective action.	93	69	71	76	57	✓	

Notes:
- a Data not available.
- b No performance goal for this fiscal year.
- c Tracking indicator.
- d Third quarter of calendar year (last quarter of fiscal year; not the entire fiscal year).
- e Calendar year beginning during the fiscal year shown.
- f Calendar year ending during the fiscal year shown.
- g Result too complex to summarize. See indicator.
- h Baseline newly established.
- i Result is estimated.
- j Number is in thousands.
- k Number reported in millions.
- l Number reported in billions.
- m For one year period ending June 30, 2007
- n First half of calendar year
- o One-year lag in data.

D.1: Ensure access to a fair and effective administrative process to investigate and resolve complaints of discrimination.

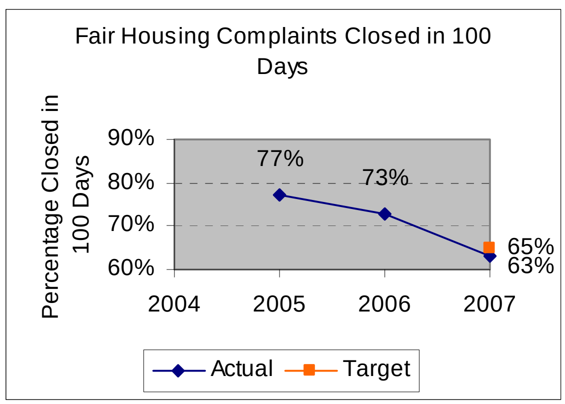
D1.1: Increase the percentage of fair housing complaints closed within 100 days to 65 percent, excluding recommended cause, pattern and practice, and systemic complaints.

Background. The Fair Housing Act (the Act), within limitations of the United States Constitution, prohibits housing discrimination on the bases of race, color, religion, sex, familial status, national origin, or disability. Enforcement of fair housing laws is crucial to enhancing housing opportunities for all of our citizens. It is particularly important for eliminating the gap in minority homeowners and expanding quality, affordable rental options. The ability to provide a fair, effective, and efficient fair housing complaint process is essential to public confidence that victims of housing discrimination will receive relief from discriminatory housing practices and confidence that violators will be punished appropriately. Confidence in the administrative process enhances equal opportunity in housing because both potential complainants and potential respondents believe that the "system" is fair and works.

The Act prescribes that investigations of complaints of housing discrimination be completed within 100 days, unless it is impracticable to do so. The Office of Fair Housing and Equal Opportunity strives to complete all investigations within the prescribed period of 100 days as an efficiency measure with an understanding that, as implied in the Act, some percentage of cases will always require a longer investigation period. It is the goal of the Department to strike the appropriate balance between efficiency and effectiveness in fair housing complaint processing.

Program website. http://www.hud.gov/offices/fheo/index.cfm

Results, impact, and analysis. The target was not met. During FY 2007, of a total of 2,531 cases closed, the Office of Fair Housing and Equal Opportunity closed 1,595 cases within 100 days, which is a 63 percent case-closure rate as defined by the measure. The FY 2007 target was an increase of five percentage points over the FY 2006 measure, which called for a 60 percent closure rate. While this year's accomplishment exceeded the Department's goal of the previous year, it fell short of this fiscal year's ambitious goal. This case closure rate was intended to capture efficiency in investigating and resolving the typical fair housing complaint. The rate is determined by dividing the number of cases that are closed within 100 days by the total number of defined cases closed during the fiscal year. All cases open at the end of the fiscal year are carried over into the new fiscal year's case inventory.



Resources and performance link. Each year the Department strives for greater efficiency in completing fair housing complaint processing within 100 days as prescribed in the Fair Housing Act. Case processing is conducted by the Office of Fair Housing and Equal Opportunity and by its Fair Housing Assistance Program partners. During FY 2007 more than 10,000 complaints of housing discrimination were received.

Reasons for shortfall/plans and schedule to meet the goal. In FY 2007, FHEO recognized the need to take a more comprehensive approach to its case processing, as it realized its efficiency goal actually creates a disincentive to resolve cases once they have exceeded 100 days processing time. In other words, the goal placed all the emphasis on closing newly-filed cases within 100 days while placing no emphasis on resolving aged cases, those cases over 100 days old. While the current goal does not acknowledge activity on aged cases, FHEO adopted more comprehensive approach in 2007. Consequently, FHEO's effort to address its overall inventory of aged cases resulted in FHEO falling modestly short of resolving 65 percent of its new cases within the first 100 days. FHEO was successful in completing investigations in other categories of cases. There were 56.0 percent more aged cases closed in FY 2007 compared to FY 2006, and 44.5 percent of the more complex cases of systemic discrimination or difficult investigations. An analysis of FHEO's overall efficiency for its entire case inventory reflects that FHEO closed or charged 62.6 percent of all cases that were open at the beginning of the fiscal year by the end of FY 2007, compared to its closure of 53.7 percent of this backlog the previous year. So, whereas the high closure rate among new cases accounted for FHEO's success in meeting its target in FY 2006, work on closing out the backlog of cases from that year resulted in FHEO barely missing its goal for new cases in FY 2007.

The Department also closed more cases in FY 2007 than in FY 2006. So, the greater volume of cases accounts in part for the target shortfall.

FHEO has struggled to develop performance measures that balance timeliness of investigations in its new cases and reducing the backlog of older cases. Measures must also ensure that quality and justice is not sacrificed for timeliness. FHEO is currently developing improved measures that more accurately measure overall case-processing efficiency. These measures would include in their calculation FHEO's processing of aged cases and previously excluded categories of cases. FHEO is also implementing a more regular monitoring mechanism for reports on overall efficiency and will also develop a model that will provide for more sophisticated end-year projections during the course of the year.

Data discussion. Case data are recorded and maintained in the Office of Fair Housing and Equal Opportunity's Title Eight Automated Paperless Office and Tracking System. The data system entries are verified through random checks of physical case files and documentation of case closures.

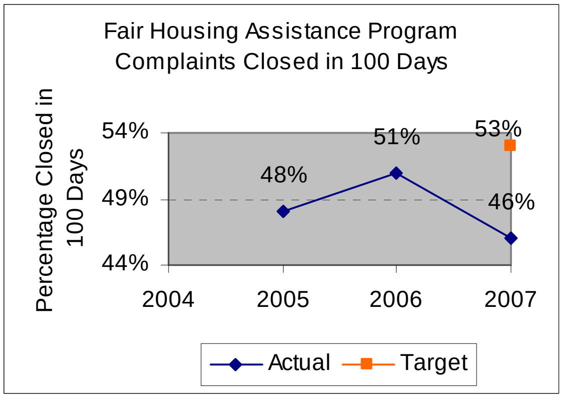
D1.2: Increase the percentage of Fair Housing Assistance Program complaints closed within 100 days to 53 percent, excluding recommended cause and systemic complaints.

Background. The Fair Housing Act (Act) authorizes HUD to establish the Fair Housing Assistance Program under which state and local jurisdictions whose fair housing laws are deemed substantially equivalent to the Act can be certified for fair housing enforcement. Housing discrimination complaints within a certified agency's jurisdiction are transferred by HUD to the agency for processing. Consequently, Fair Housing Assistance Program agencies case processing efficiency is essential to public confidence in the fair housing administrative process. Confidence in the administrative process enhances equal opportunity in housing because both potential complainants and potential respondents believe that the process is fair and works.

The Act prescribes that housing discrimination complaint investigations be completed within 100 days, unless it is impractical to do so. The Office of Fair Housing and Equal Opportunity strives to ensure that Fair Housing Assistance Program agencies complete all investigations within the prescribed period of 100 days as an efficiency measure with an understanding that, as implied in the Act, some percentage of cases will always require a longer investigation period. It is the goal of the Department to strike the appropriate balance between efficiency and effectiveness in fair housing complaint processing.

Program website. http://www.hud.gov/offices/fheo/partners/index.cfm

Results, impact, and analysis. The target was not met. During FY 2007, Fair Housing Assistance Program partners closed 3,177 cases within 100 days of a total of 6,960 closed cases as defined by the measure. This represented a timely closure rate of 46 percent, short of the goal of 53 percent. The case closure rate represents the overall efficiency in processing fair housing complaints and is calculated by dividing the number of defined cases closed within 100 days by the total number of defined cases closed during the fiscal year. Cases open at the end of the fiscal year are carried over into the following fiscal year case inventory. The FY 2007 target was an increase of three percentage points of the FY 2006 goal of 50 percent when fair housing partners closed 51 percent of cases as defined by the measure.



Resources and performance link. The budget for case processing in FY 2007 was $17.143 million, an increase of $143,000 over FY 2006 and 66 percent of the total fiscal budget. Each year the Department supports partner agencies in striving for greater efficiency in completing fair housing complaint processing within 100 days. The Department pays partner agencies for case completions with higher incentives for completing cases within the statutory timeframe. During FY 2007 more than 10,000 complaints of housing discrimination were received. During the same period the Department and partner agencies closed more than 9,400 cases, which included some carry-over cases from prior fiscal years.

Reasons for shortfall/plans and schedule to meet the goal. The FY 2007 indicator excluded from the measurement systemic cases and case investigations resulting in a proposed determination of reasonable cause. Additionally, the agencies placed great focus on closing aged cases, those cases that had been in inventory for more than 100 days. This affected closing newer cases in fewer than 100 days. By the end of FY 2007, Fair Housing Assistance Program partner agencies had reduced the average age of cases in inventory by 23.9 percent. Partner agencies also closed or charged 96.7 percent of their aged cases that had been in inventory at the beginning of the fiscal year. In FY 2005 and 2004, partner agencies closed 83.5 percent and 88.2 percent of its aged case inventory, respectively.

Also, significantly, FHAP agencies made "cause" determinations in a greater percentage of cases this year than in FY 2006. In FY 2007, the agencies found cause in eight percent of the cases compared to six percent in the previous year. So, while the agencies may have not met its goal in processing new cases, it has returned more favorable outcomes for victims of discrimination this year than in the previous year. In fact, this year's cause rate exceeds the rate for each of the last five years.

The Department is currently developing internal measures and measures for partner agencies that are anticipated to be a more accurate indication of overall case processing efficiency by examining closure rates of the entire inventory of case that will include previously excluded cases and cases that have been in inventory for more than 100 days.

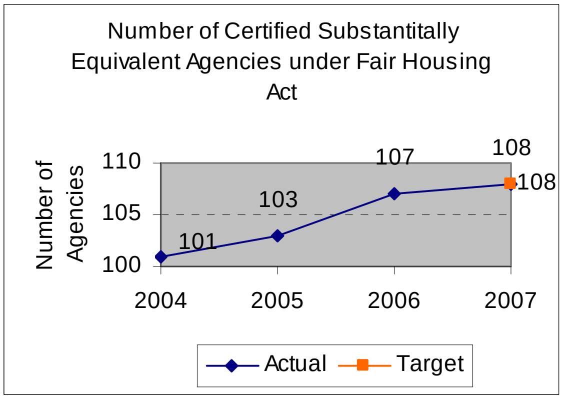
Data discussion. Case data are recorded and maintained in the Office of Fair Housing and Equal Opportunity's Title Eight Automated Paperless Office and Tracking System. The data system entries are verified through random checks of physical case files and documentation of case closures.

D1.3: In order to increase the nation's capacity to provide coordinated enforcement for fair housing laws, certify two new substantially equivalent agencies under the Fair Housing Act.

Background. HUD provides funding to state and local governmental agencies through the Fair Housing Assistance Program to enforce state or local fair housing laws that have been certified by HUD as substantially equivalent to the federal Fair Housing Act. This assistance includes support for complaint processing, training, technical assistance, data and information systems, and other fair housing projects. The program is designed to build coordinated intergovernmental enforcement of fair housing laws and provide incentives for states and localities to assume a greater share of the responsibility for administrating fair housing laws. This indicator tracks the number of state and local government agencies that have been certified as substantially equivalent during the fiscal year.

Program website: http://www.hud.gov/offices/fheo/partners/FHAP/index.cfm

Results and analysis. HUD met its FY 2007 goal and certified two new agencies as substantially equivalent. With the addition of the two agencies HUD now has a total of 108 fair housing partners. There were 106 partner agencies because one agency was decertified in FY 2007. The new agencies are Erie County Human Relations Commission (PA) and Westchester County Human Relations Commission (NY). The certification of these new agencies increases HUD's capacity to provide coordinated enforcement of fair housing laws nationwide.



Resources and performance link. Evaluations of fair housing laws of states and localities for a substantial equivalency determination are conducted by HUD's Office of General Counsel. Final equivalency approvals are made by the Assistant Secretary for Fair Housing and Equal Opportunity in accordance with the regulations at 24 CFR Part 115.

Data discussion. Fair Housing Assistance Program administrative data are maintained in Headquarters office and each of the field offices. Certified agencies and the Assistant Secretary sign Interim Agreements or Cooperative Agreements, which contractually bind the agencies and the Department. Each agency is monitored annually and performance assessments are completed and documentation maintained in both Headquarters and the field office having jurisdiction over the particular agency. Agencies status and performance data is also tracked in Title Eight Automated Paperless Office Tracking System. This indicator uses a straightforward and easily verifiable count of Fair Housing Assistance Program agencies.

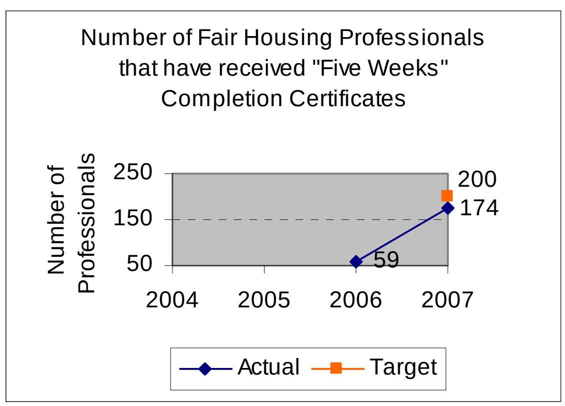
D1.4: By the end of FY 2007, 200 fair housing professionals will receive certificates of completion since the opening of National Fair Housing Training Academy (NFHTA) to ensure effective, efficient, and consistent complaint investigations.

Background. The National Fair Housing Training Academy (Academy) is the educational arm of the Department of Housing and Urban Development's Office of Fair Housing and Equal Opportunity. The concept of the Academy was approved by Congress in FY 2004, when funds were provided through the Fair Housing Assistance Program for the initial formation and coordination of activities necessary to establish the Academy. The curriculum, site, and faculty have been identified in collaboration with HUD and fair housing partner leaders. HUD contracted with the USDA Graduate Schools to manage the day to day operations of the Academy. In addition, in partnership with HUD, the Graduate School developed the curriculum for the Academy.

Currently, trainees who successfully complete the five-week core curriculum of the National Fair Housing Training Academy will receive a certificate which denotes a level of expertise in civil rights enforcement; an embracing of the core values of fairness and equal opportunity; a commitment to excellence; respect for the dignity of all those we serve; fairness; professionalism; and personal and organizational integrity. The FY 2008 Annual Performance Plan (see Appendix A of that plan) revised the FY 2007 indicator to capture the number of fair housing professionals receiving certificates of completion instead of the number of investigators receiving full certification. HUD is working on formal certification of Academy's curriculum to authorize certification of Academy participants.

Program website. http://www.hud.gov/offices/fheo/nfhta.cfm

Results, impact and analysis. The target was not met. One-hundred seventy four participants have completed the five week basic coursework since the inception of the Academy. By FY 2006, 796 fair housing professionals enrolled in the Academy and 59 attendees had completed all five modules and received certificates of completion. During FY 2007 the number of completion certificates issued nearly doubled.



Resources and performance link. All state and local fair housing professionals must become more efficient and adept at processing cases. To ensure this, HUD requires fair housing investigators to satisfactorily complete 200 hours of training in theory and techniques of fair housing investigations. The Academy courses cover such topics as case management, civil rights laws, legal updates, testing, compliance monitoring, investigation, and conciliation. The requirements currently apply to all full-time investigators in Fair Housing Assistance Program agencies.

Reasons for shortfall/plans and schedule to meet the goal. The Academy has only been in existence for three years. In this short time the Academy has evolved with the addition of a fully structured curriculum, professional staff, and the Academy Administrator. Over the course of FY 2007, the Academy encountered severe logistical issues. The original site of the Academy was inaccessible for persons with disabilities and there were problems maintaining the building in a safe and sanitary condition. HUD, the Graduate School and Howard University engaged in a series of conversations which culminated in the decision to move the NFHTA after Howard University determined that it could not adequately address the accessibility and habitability issues. During this timeframe, the FHAP agencies complained of the site conditions and the number of FHAP participants declined. In July 2007, HUD temporarily relocated the NFHTA to the Graduate School campus pending the identification of a permanent home. The NFHTA FHAP constituency has communicated its approval of the new location and we anticipate enrollment will grow. Further, NFHTA is conducting outreach to the Fair Housing community to ensure that the numbers of participants will grow in FY 2008.

Data discussion. Staff tracking and recordation of online registration ensures accurate enrollment census and curriculum completions. Enrollment and completion data is used to measure and verify improvement of investigative skills.

D.2: Improve public awareness of rights and responsibilities under fair housing laws.

D2.1: Recipients of FHIP education and outreach grants will hold at least 300 public events, to include outreach to faith-based and grassroots organizations, reaching at least 180,000 people.

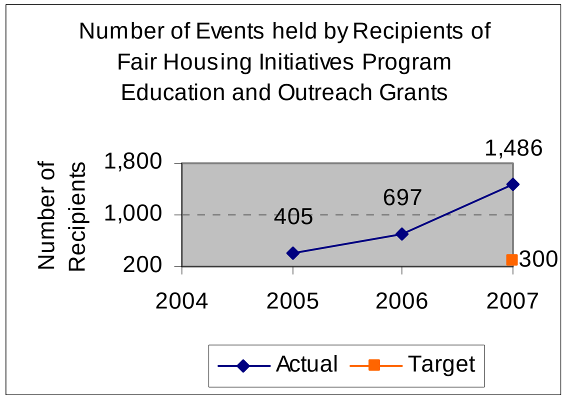
Background. The Fair Housing Initiatives Program provides grants to public, private, and nonprofit groups to conduct education and outreach activities within particular communities. The 2002 HUD study, "How Much Do We Know?" examined the public's awareness of the Fair Housing Act's prohibitions against housing discrimination. In 2006 HUD conducted a follow-up survey to determine whether public awareness had increased. The study found that there was little improvement in knowledge of the Fair Housing Act over four years. The study also found that, as with the earlier study, few people do anything about perceived acts of discrimination. Fair Housing Initiatives Program organizations create greater awareness of housing discrimination, lending discrimination, and predatory lending through the publicity generated by their enforcement efforts and the education they conduct with Education and Outreach Initiative grants.

Program website. http://www.hud.gov/offices/fheo/partners/FHIP/fhip.cfm

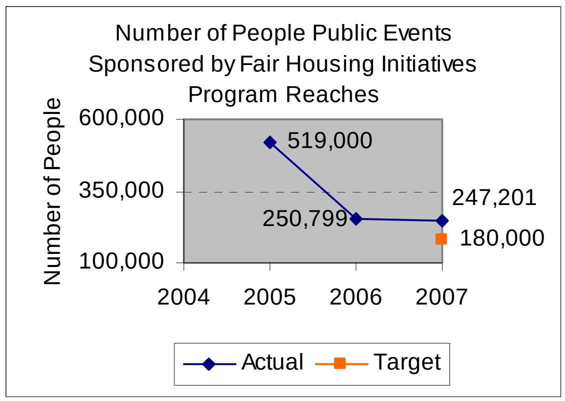
Results, impact, and analysis. The goal was met. Fair Housing Initiative Program grantees held 1,486 education and outreach events, a nearly 400 percent increase over the goal of 300 and more than doubles the 697 events held during FY 2006. Additionally, grantees reached

247,201 persons in holding events exceeding the goal of 180,000 by 67,201, or more than 30 percent.

HUD's education and outreach efforts, particularly those carried out through this program, have led to an increase in public awareness of fair housing laws. For example, tracking surveys conducted by the Ad Council in 2003 and 2004 measured the impact of HUD's Fair Housing Initiative Program-funded fair housing public service announcements finding that: (1) those who saw the public service announcements were more likely to be aware of the Fair Housing Act than those who did not (87 percent versus 70 percent); (2) people who saw at least one of the public service announcements were more likely to be aware of housing discrimination as a problem; and (3) the general public's knowledge of the Fair Housing Act increased from 67 percent to 74 percent.



Resources and performance link. The overall Fair Housing Initiatives Program budget has been relatively stable at approximately $20 million. The increase in public awareness has likely contributed to the rise in public reports of housing discrimination. Fair Housing Assistance Program agencies received 7,034 complaints in FY 2005, a 7.4 percent increase over FY 2004. In FY 2006 and FY 2007, HUD and partner agencies have received more than 10,000 complaints of housing related discrimination.



Data discussion. HUD requires Fair Housing Initiatives Program recipients to report their education and outreach activities. HUD tracks the total number of events held and persons reached based on data derived from the quarterly and final reports submitted by the grantees. HUD also requires that Fair Housing Initiatives Program grantees submit copies of items, such as the programs and attendance sheets from education and outreach activities, to verify their activities. The data are reported in HUD's Integrated Performance Reporting System.

D.3: Improve housing accessibility for persons with disabilities.

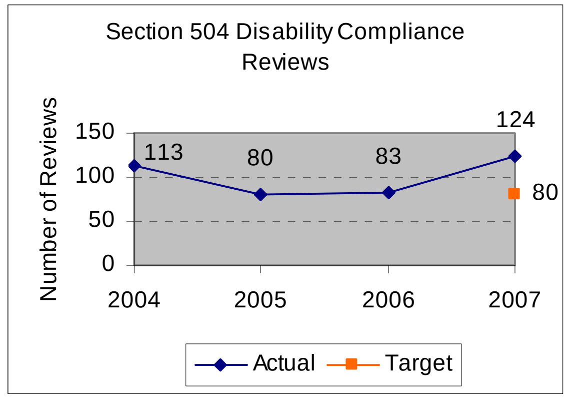
D3.1: HUD will conduct 80 Section 504 disability compliance reviews or formal Voluntary Compliance Agreement monitoring reviews of HUD recipients and take appropriate corrective action.

Background. The Office of Fair Housing and Equal Opportunity reviews Public Housing Authorities, providers of HUD-assisted housing, and other HUD grantees for compliance with Section 504 of the Rehabilitation Act of 1973, which prohibits discrimination by recipients of HUD federal financial assistance on the basis of disability.

Recipients undergo compliance reviews to review accessibility of programs and activities the physical accessibility of housing units.

Program website. http://www.hud.gov/offices/fheo/disabilities/index.cfm

Results, impact, and analysis. The goal was met. FHEO conducted 124 Section 504 compliance reviews and issued Letters of Findings for each review. The target was exceeded by 55 percent of the 80 reviews that were planned. The total compliance reviews conducted this year exceeded the reviews in the past two fiscal years by more than 50 percent with 83 reviews completed in FY 2006 and 80 in FY 2005.



Resources and performance link. Compliance reviews are essentially staff resources. A Section 504 compliance review is complete when the letter of finding is sent to the recipient. Compliance reviews are conducted either on-site or remotely. HUD completes a compliance review by issuing a letter of finding, containing the findings of fact, a finding of compliance or noncompliance, and a description of an appropriate remedy for each violation identified, if any. Each field office enters compliance review or monitoring data into the Title Eight Automated Paperless Office Tracking System and HUD Integrated Performance Reporting System. Notification letters of all compliance reviews are issued in advance of a review or Voluntary Compliance Review monitoring and on-site reviews are conducted within 60 days of notification letter. Investigative reports are completed within 120 days of notification letters.

Data discussion. Letters of Findings, Letters of Determination, monitoring reports and proposed Voluntary Compliance Agreements are all documented and filed at the regional offices. Dates of each milestone are entered into the Title Eight Automated Paperless Office Tracking System and field offices enter compliance and monitoring data into the HUD Integrated Performance Reporting System. The Office of Fair Housing and Equal Opportunity's Office of Field Oversight monitors field office activities and records are examined during Quality Management Reviews.

D3.2: HUD will verify that HUD-assisted units are made accessible as a result of Voluntary Compliance Agreements. Beginning in FY 2007, develop and maintain a database of the accessible units.

Background. HUD's 2005 study "Discrimination Against Persons with Disabilities: Barriers at Every Step" revealed high levels of discrimination against persons with disabilities. For example, the study revealed that at least one-third of the advertised rental properties in the Chicago area were not accessible to persons in wheelchairs. Additionally, disability related complaints averaged about 40 percent of all fair housing complaints processed from FY 2003 through FY 2006 and represented approximately 43 percent of complaints filed in FY 2007. Through Section 504 Compliance Reviews, HUD ensures that HUD recipients meet the Section 504 accessibility requirements. HUD signs voluntary compliance agreements (VCAs) with HUD recipients that are in noncompliance with Section 504. In the VCAs, they agree to develop accessible units within a time frame. To ensure that accessibility units are being developed on schedule FHEO monitors the VCAs and tracks these units.

Program website. http://www.hud.gov/offices/fheo/disabilities/index.cfm

Results, impact, and analysis. The goal was met. The Office of Fair Housing and Equal Opportunity's Office of Information Services and Communications and the Office of Policy, Legislative Initiatives and Outreach worked together to determine data requirements for the database system. The Office of Information Systems developed the system based on the necessary requirements and ensured that the system was tested and operational.

Resources and performance link. The Office of Policy, Legislative Initiatives and Outreach will now develop reporting criteria for field offices to report and manage data. Criteria will be developed based on data requirements and the Office will work with field offices to develop the appropriate reporting criteria. The Office of Fair Housing and Equal Opportunity will collaborate with HUD's Office of the Chief Information Officer to identify the most effective software system based on the organization's needs.

Data discussion. Managers will provide quality assurance by reviewing the results of fair housing enforcement efforts. Accessible housing units will be verified through onsite inspections conducted by field staff to ensure compliance with applicable fair housing laws and other regulations.

D4: Ensure that HUD-funded entities comply with fair housing and other civil rights laws.

D4.1: HUD program offices will conduct limited civil rights monitoring reviews of HUD-funded entities and make referrals to FHEO for review and appropriate action.

Background. This cross-cutting indicator focused on ensuring all HUD-funded programs provided equal opportunity in housing and non-discrimination in programs or activities conducted by recipients. HUD program offices conducted limited civil rights monitoring reviews of HUD-funded entities during regular program monitoring reviews utilizing checklists developed by HUD program offices and the Office of Fair Housing and Equal Opportunity. The program offices referred the checklists to the Office of Fair Housing and Equal Opportunity for review and appropriate action as necessary. The information was used to assess the relative Civil Rights risk of HUD funded recipients. Based on the risk level (low, medium, or high) HUD recipients are then identified for FHEO program monitoring reviews or compliance reviews.

Program website. http://www.hud.gov/offices/fheo/FHLaws/index.cfm

Results, impact, and analysis. The goal was met. The Office of Fair Housing and Equal Opportunity's Office of Policy Legislative Initiatives and Outreach received 13,040 front-end civil rights and limited monitoring review checklists and supporting data from a variety of programs implemented by HUD's Office of Public and Indian Housing, Office of Housing and the Office of Community Planning and Development. This inaugural year of such collaboration is expected to continue and to enhance HUD's commitment to provide housing and other HUD programs and activities free of discrimination.

Resources and performance link. The Office of Fair Housing and Equal Opportunity's Office of Policy Legislative Initiatives and Outreach gathered data from other HUD program offices and determined the annual target. The Office will conduct follow-up activities with the various offices to ensure recipient compliance with fair housing and other civil rights laws and conduct formal compliance reviews if information contained in the checklist warrants such action.

Data discussion. The Office of Policy Legislative Initiatives and Outreach receives front-end reviews from other HUD program offices and reports accomplishments to the Office of Fair Housing and Equal Opportunity's Office of Management Planning and budget. Front-end and limited monitoring review checklists are maintained in the FHEO field offices and data is entered into the HUD Integrated Performance Reporting System.

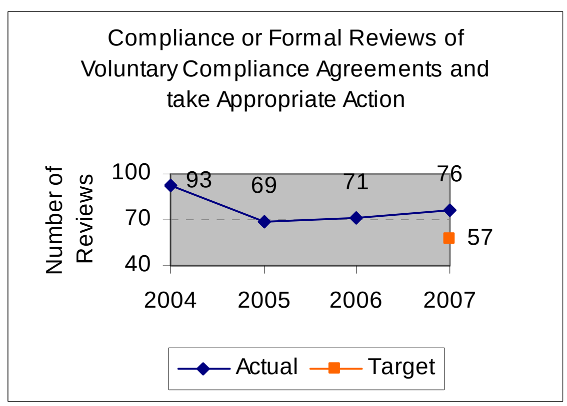
D4.2: Conduct 57 compliance reviews or formal monitoring reviews of Voluntary Compliance Agreements, either exclusively or concurrently under Title VI and Section 109, and take appropriate corrective action.

Background. The Office of Fair Housing and Equal Opportunity reviews Public Housing Authorities, providers of HUD-assisted housing, and other HUD recipients to determine whether their programs and activities comply with Title VI of the Civil Rights Act of 1964 and Section 109 of Title I of the Housing and Community Development Act of 1974. HUD's total net discretionary budget authority is $37.5 billion for housing and community development programs, and this indicator highlights the Department's commitment to ensuring fair housing compliance in all programs directed by HUD.

Title VI prohibits discrimination on the basis of race, color, or national origin in programs or activities receiving federal financial assistance. Section 109 prohibits discrimination on the basis of race, color, national origin, religion, or sex in any program or activity funded by the Community Development Block Grant program.

Program website. http://www.hud.gov/offices/fheo/FHLaws/index.cfm

Results, impact, and analysis. The goal was met. FHEO conducted 76 Section 109 compliance reviews and issued Letters of Findings for each review. The target was exceeded by more than 33 percent of the 57 reviews that were planned. The total compliance reviews conducted this year exceeded the reviews conducted in FY 2006 by eight percent when 71 reviews were completed. In FY 2006, HUD issued letters of findings in 11 Section 109 compliance reviews and 60 Title VI compliance reviews. The Department will continue to review its programs and activities to ensure that they are administered in a non-discriminatory manner.



Resources and performance link. This outcome represents an improvement over last fiscal year despite limited staffing and other resources. Title VI and Section 109 compliance reviews and Voluntary Compliance Agreement monitoring is complete when the letter of finding is sent to the recipient. HUD completes a compliance review by issuing a letter of finding, containing the findings of fact, a finding of compliance or noncompliance, and a description of an appropriate remedy for each violation identified, if any. Each field office enters compliance review or monitoring data Title Eight Automated Paperless Office Tracking System and HUD Integrated Performance Reporting System. Notification letters of all compliance reviews are issued in advance of a review or VCA monitoring and on-site reviews are conducted within 60 days of notification letter. Investigative reports are completed within 120 days of notification letters.

Data discussion. Letters of Findings, Letters of Determination, monitoring reports and proposed Voluntary Compliance Agreement's are all documented and filed at the regional offices. Dates of each milestone are entered into Title Eight Automated Paperless Office Tracking System and field offices enter compliance and monitoring data into the HUD Integrated Performance Reporting System. The Office of Fair Housing and Equal Opportunity's Office of Field Oversight monitors field office activities and records are examined during Quality Management Reviews.

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

Strategic Objectives:

E1 **Strategically manage HUD's human capital to increase employee satisfaction and improve HUD performance.**

E2 **Improve HUD's management and internal controls to ensure program compliance and resolve audit issues.**

E3 **Improve accountability, service delivery, and customer service of HUD and its partners.**

E4 **Capitalize on modernized technology to improve the delivery of HUD's core business functions.**

PERFORMANCE REPORT CARD - GOAL E

	Performance Indicators	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2007 Target	Met	Notes
E1	**Strategically manage HUD's human capital to increase employee satisfaction and improve HUD performance.**							
E1.1	The Resource Estimation and Allocation Process, the Total Estimation and Allocation Mechanism, and the Corrective Action Plan System will complete four milestones in support of strategic human capital management. (specific milestones listed below)	Yes	3	3	3	4	see below	
	On-time budget request using human capital data				Yes	Yes	✓	
	Pilot Total Estimation and Allocation Mechanism in Office of Fair Housing and Equal Opportunity				Yes	Yes	✓	
	Human Capital data used in assessing human resources needs and hiring decisions				Yes	Yes	✓	
	Complete study in Single Family Homeownership Centers and Headquarters				No	Yes	✗	
E1.2	HUD will reduce mission critical general skill gaps by 50 percent in its four core business program offices: Public and Indian Housing; Housing; Community Planning and Development; and Fair Housing and Equal Opportunity.	N/A	1	10%	50%	50%	✓	

PERFORMANCE REPORT CARD - GOAL E

	Performance Indicators	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2007 Target	Met	Notes
E1.3	HUD will reduce mission critical skill gaps by 25 percent in the leadership and management competency.				100%	25%	✓	
E1.4	Eighty percent of HUD interns are retained and targeted for mission-critical positions in HUD offices.	N/A	84%	Recruit	98%	80%	✓	
E1.5	HUD employees continue to become increasingly satisfied with the Department's performance and work environment.	12	1%	N/A	61%	100%	✗	
E2	**Improve HUD's management and internal controls to ensure program compliance and resolve audit issues.**							
E2.1	Sustain progress in eliminating non-compliant financial management systems.	4	2	2	2	2	✓	
E2.2	Ensure timely management decisions and final actions on audit recommendations by the HUD Office of Inspector General.							
	Management Decisions	100%	99.5%	100%	99.6%	99%	✓	
	Final Actions	33	35	7	1	8	✓	
E2.3	HUD financial statements receive an unqualified audit opinion.	Yes	Yes	Yes	Yes	Yes	✓	
E2.4	HUD will conduct training and exercise the Continuity of Operations Program.	N/A	N/A	Yes	Yes	Yes	✓	
E2.5	The Accelerated Claim and Asset Disposition demonstration program (Section 601) will exceed the rate of net recovery received through the Conveyance Program on the sale of single family assets.	76.9%	77.4%	76.0%	72.93%	60.5%	✓	

PERFORMANCE REPORT CARD - GOAL E

	Performance Indicators	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2007 Target	Met	Notes
E2.6	Use the structure established by Vision 2010 to modernize HUD's information technology systems, maintain well-managed information technology investments, and promote collaboration between business functions.							
	Progress in business system modernization				Yes	Yes	✓	
	Coordination of Development, modernization and enhancement spending through Segment Architectures Core IT Services				80%	80%	✓	
	Review of major information technology development investments for specified criteria				100%	100%	✓	
	Evaluation of information technology investments against HUD investment performance indicators				100%	100%	✓	
E2.7	HUD will meet specified information technology-related security requirements.							
	Continue the Certification and Accreditation effort to ensure that 100 percent of major applications documented in the Inventory of Automated Systems have been certified and accredited.			100%	100%	100%	✓	
	Prioritize and remedy high priority risks.			49%	100%	100%	✓	
	Ensure 90 percent of HUD employees and contractors will have completed IT Security and Awareness Training.			98%	96%	90%	✓	
E2.8	The share of completed CDBG activities for which grantees satisfactorily report accomplishments increases to 94 percent.	95.0%	97.3%	96.2%	98.5%	94%	✓	
E2.9	The share of HOME-assisted rental units for which occupancy information is reported shall be at least 90 percent.	91%	92%	93%	94%	90%	✓	
E2.10	A minimum of 20 percent of active CPD program grantees will be monitored for compliance with statutory and regulatory requirements.	N/A	21%	23%	22%	20%	✓	
E2.11	The Chief Information Officer will perform quality assessments of data used by HUD's major systems to report on 15 Annual Performance Plan performance indicators not previously assessed.			8	15	15	✓	

PERFORMANCE REPORT CARD - GOAL E

	Performance Indicators	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2007 Target	Met	Notes
E2.12	Respond to 2,000 inquiries, complaints, and subdivision registrations related to the Interstate Land Sales Full Disclosure Act.				7,609	2,000	✓	
E2.13	By the end of FY 2013, HUD will have an enterprise-wide financial management system that is compliant with all laws and regulations.				Progress toward completion	Progress toward completion	✓	g
E3	**Improve accountability, service delivery, and customer service of HUD and its partners.**							
E3.1	HUD partners become more satisfied with the Department's performance, operations, and programs	N/A	N/A	N/A	N/A	N/A	N/A	a
E3.2	At least 85 percent of key users (including researchers, state and local government, and private industry) will be satisfied with the quality and usefulness of the Office of Policy Development and Research work products.	N/A	87%	94%	N/A	N/A	N/A	a
E3.3	More than 6 million files related to housing and community development topics will be downloaded from the Office of Policy Development and Research's website.	5.3	5.9	8.3	7.41	6	✓	k
E3.4	One hundred percent of HUD's competitive grant packages will be available electronically through Grants.gov/Apply for those programs the Grants.gov system can accommodate.			100%	100%	100%	✓	
E3.5	Ensure appropriate use of funds among 100 percent of Fair Housing Initiatives Program and the Fair Housing Assistance Program grantees in compliance with cooperative and grant agreements.		100%	100%	100%	100%	✓	
E3.6	The FHA Mutual Mortgage Insurance fund meets Congressionally mandated capital reserve targets.	5.53%	6.02%	6.82%	6.40%	2.0%	✓	
E4	**Capitalize on modernized technology to improve the delivery of HUD's core business functions.**							
E4.1	The high incidence of program errors and improper payments in HUD's rental housing assistance programs will be reduced.	6.9%	5.6%	5.4%	5.5%	5%	✗	

PERFORMANCE REPORT CARD - GOAL E

	Performance Indicators	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2007 Target	Met	Notes
E4.2	PHAs will submit accurate tenant characteristics data on 95 percent of the households in accordance with established timeframes and 95 percent of the required financial statements on a timely basis.							
	Accurate tenant characteristics data			96.8%	97%	95%	✓	
	Timely financial statements			90.6%	96%	95%	✓	
E4.3	By taking aggressive civil or administrative enforcement actions, the Departmental Enforcement Center will assist the Office of Housing maintain the insured and/or assisted multifamily housing properties in physically condition by closing 80 percent of the physical referral cases in the Departmental Enforcement Center as of October 1, 2006, by September 30, 2007.		85%	96.8%	100%	80%	✓	

Notes:

a	Data not available.
b	No performance goal for this fiscal year.
c	Tracking indicator.
d	Third quarter of calendar year (last quarter of fiscal year; not the entire fiscal year).
e	Calendar year beginning during the fiscal year shown.
f	Calendar year ending during the fiscal year shown.
g	Result too complex to summarize. See indicator.
h	Baseline newly established.
i	Result is estimated.
j	Number is in thousands.
k	Number reported in millions.
l	Number reported in billions.
m	For one year period ending June 30, 2007
n	First half of calendar year
o	One-year lag in data.

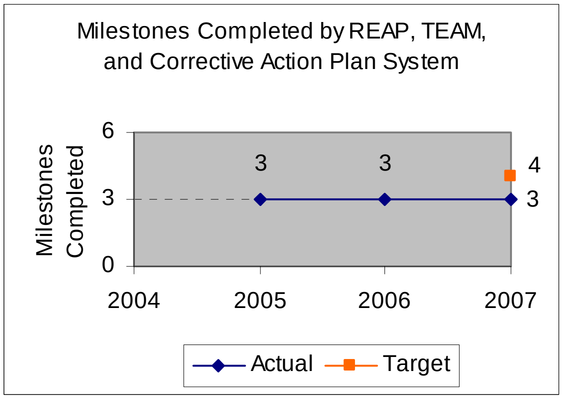
E1 Strategically manage HUD's human capital to increase employee satisfaction and improve HUD performance.

E1.1: Resource Estimation and Allocation Process, the Total Estimation and Allocation Mechanism and, the Corrective Action Plan System will complete four milestones in support of strategic human capital management.

Background. The Resource Estimation and Allocation Process/Total Estimation and Allocation Mechanism (REAP/TEAM) supports the Department's effort to estimate, allocate, and validate resources for effective and efficient program administration and management. It is a tool for assessing whether the Department has the right number of people in the right places. It is also provides a foundation for HUD's long-term human capital strategies, including succession planning.

Program website. http://hudatwork.hud.gov/po/f/team/reapteam2.cfm

Results, impact and analysis. Three of four milestones were completed and the fourth milestone was substantially completed during the fiscal year and will be completed in the first quarter of FY 2008.



- The FY 2008 Budget request was submitted to Congress on time with REAP/TEAM/CAPS data used to develop FTE requirements.
- The TEAM Allocation Module was piloted in Fair Housing and Equal Opportunity with positive feedback.
- REAP/TEAM/CAPS data was used in assessing HR needs and making hiring decisions.
- A REAP study of the Single Family Homeownership Centers, covering 734 FTE, was completed.

Resources and performance link. Developed in conjunction with the National Academy of Public Administration, REAP was first implemented by the Department in FY 2001 and is a key tool in allocating staff resources to improve performance. HUD developed TEAM as an automated information system that captures samples of actual workload accomplishments and employee time usage by HUD employees. The Corrective Action Plan System (CAPS) is used to collect payroll information by office in support of Departmental managerial cost accounting/activity based accounting.

Reasons for shortfall/plans and schedule to meet the goal. Completion of the REAP studies of Single Family Headquarters was delayed by the need to try and assess the impact of FHA Secure and pending FHA Reform legislation and will be completed during the first quarter of FY 2008.

Data discussion. Data in the two systems are maintained by the Office of the CFO's Office of Budget. TEAM data is based on random sampling of time usage and actual workload accomplishments from all program areas. Supervisors validate employee data input. Data are maintained by fiscal year.

E1.2: HUD will reduce mission critical skill gaps by reducing targeted competency gaps by 50 percent in its four core business offices: Public and Indian Housing; Housing; Community Planning and Development; and Fair Housing and Equal Opportunity.

Background. As part of HUD's Strategic Plan and its Strategic Human Capital Management Plan, the Department developed workforce plans for each program area to address closing skill gaps in mission critical competencies. Success in these efforts will help ensure qualified staff to carryout HUD's principal mission and program operations in a highly effective and efficient manner.

The Department had expected to reduce, by an additional 15 percent from the expected FY 2006 reduction, its identified mission critical general skill gaps for the four core program offices. Data, however, were not collected in a way to allow aggregate reporting to the program office level. That is, data do not exist that would allow HUD to report on the percentage contribution of each program office's efforts through recruitment and training on the overall departmental reduction of mission critical skill gaps. Therefore, the indicator goal was amended in Appendix A of the FY 2008 Annual Performance Plan. For the revised indicator, each of the core business offices identified a specific mission critical competency, established a baseline of existing skills gaps for that competency, set targets to close those gaps, and proceeded with various activities, including training and recruitment, to reduce the targeted competency gap within each core group by 50 percent.

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

Results, impact, and analysis. Each core business office met the established goal of a 50 percent reduction, with PIH, Housing, and CPD exceeding the target. All offices focused on increasing staff skills from the "Beginner level" to the "Advanced level" for the identified mission critical competencies. This approach yielded the dual benefit of strengthening the skills of existing staff in mission critical positions for improved performance, and adding value to outreach and recruitment by helping to identify necessary technical skills among job applicants and prospective hires.

Specific results from the core business offices include:

- *PIH:* The financial analysis training for PIH staff included a review of the basics to support improved asset management. Staff benefited from the introduction to the asset-based funding formula for operating public housing to make it more cost-effective.
- *FHEO*: Staff in FHEO exhibited substantial improvement in written work products pertaining to various aspects of the investigative process (e.g., quality of case determinations; Section 504 compliance reviews, and general investigations).
- *Housing*: The in-house Gateway to Learning Development curriculum covered a variety of HUD programs and topics essential to Multifamily personnel. For example, these topics included government systems, financial management/cost certifications, project management; asset management, and asset development.

- *CPD*: Training received by CPD staff included a review of Basic CDBG and HOME, with a comprehensive look at the related financial management requirements. Completion of the training resulted in improved regulatory proficiency among the participating staff.

The chart below shows the competencies targeted and the percentage of the gap reduction.

Program Office	Compe-tency	Baseline Skill Level (number of employees)			Current Skill Level (number of employees)			Pct. of Gap Closed
		Advanced	Beginner	Skill Gap	Advanced	Beginner	Remain-ing Gap	
PIH	Financial analysis	117	49	49	157	9	9	81%
FHEO	Analytical ability and reasoning	145	191	191	242* (trained + new hires)	118	94	50%
Housing	Asset Manage-ment	335	94	94	429	0	0	100%
CPD	Finance and statistics	50	25	25	75	0	0	100%

* In addition to conducting training, the Office of Fair Housing and Equal Opportunity augmented its gap closure efforts by hiring 24 new staff, including 12 supervisors. These supervisory hires brought additional technical expertise to support in-house training, as well as developmental support for existing staff and the new staff hired at the intermediate levels.

Data discussion. The Office of Training Services gathered skill gap closure data from each of the program offices. A skill gap is considered reduced either by completing the specified training or through recruitment. Effectiveness of completed training will be assessed in FY 2009. The baseline data represent managers' perceptions of their staff and may be limited by subjectivity. Initially, the data was developed at a strategic level, based on the managers' knowledge of the capability of existing staff and subsequently augmented with employee input during the development of Individual Training Action Plans. The progress of the targeted competency gap closure was monitored quarterly with the Office of Personnel Management oversight partners under the President's Management Agenda human capital scorecard.

E1.3: HUD will reduce mission critical skill gaps by 25 percent in the Leadership and Management competency.

Background. HUD remains committed to having a high quality workforce as it continues to implement both the Department's Strategic Plan and its Strategic Human Capital Management Plan. In FY 2005, in response to the President's Management Agenda, HUD developed a Department-wide Management Competency Plan to ensure that HUD maintains a highly trained and effective corps of supervisors, managers, and executives to lead the Department in accomplishing its current and future mission, goals, and objectives. In August 2006, Secretary Jackson sent a HUD Training Strategy memorandum to all HUD employees stating that "Beginning in FY 2007, the responsibility for promoting continuous training and development of employees will be a <u>mandatory</u> requirement documented in each manager's and supervisor's performance plan." Also, the Department initiated a new requirement that each program organization has in place an Individual Training Action Plan for each employee beginning in FY 2007. Using these Individual Training Action Plans, program organizations developed their Program Training Action Plans, which then were used to create a Departmental-wide Training Action Plan featuring the top ten cross-cutting general and managerial training needs (i.e., competency skill gaps). By the end of FY 2006, HUD had trained all current supervisors, managers, and executives in that years' identified leadership and management competency, conflict management or alternative dispute resolution. In FY 2007, HUD targeted three additional competencies from the plan and implemented an action plan to reduce those leadership and management competency skill gap by at least 25 percent.

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

Results, impact, and analysis. HUD exceeded this goal for all three identified competencies by achieving a 100 percent skill gap reduction. In FY 2007, HUD implemented a competency-based training strategy that incorporated a competency assessment process for identifying the top technical, general and managerial training needs. The chart below shows the competencies targeted and the percentage of the gap reduction:

Competency	Baseline Skill Level (number of non-SES supervisors)			Current Skill Level (number of non-SES supervisors)			Pct. of Gap Closed
	Trained	Not Trained	Skill Gap	Trained	Not Trained	Remaining Gap	
Customer Service	1200	65	65	65	0	0	100%
Developing Others	1200	1200	1200	1200	0	0	100%
Conflict Management	1200	350	350	350	0	0	100%

Additionally, the Department developed and implemented a mandatory training program (New Supervisor Training Program), which provides new supervisors with human resource management procedures, techniques, tools, and contacts that will enable them to effectively perform their supervisory duties consistent with HUD and federal government policies and regulations. In FY 2007, HUD had 93 new supervisors (less than one year), all of whom were targeted for and received training.

Also, HUD began implementing its full service Learning Management System (i.e., the New HUD Virtual University), which, beginning in FY 2008, will house HUD's competency library. These core competencies will be linked to each series/position title, competency assessments, training plan development and management, training request processing, and training completion reporting functionality and will allow HUD to identify and track closure of skill gaps from a central point.

Resources and performance link. The Department spent $311,899 for Leadership and Management training during FY 2007, which included travel expenses.

Data discussion. Management skill gaps are measured annually through the Department's Management Competency Plan. The assessment is based upon managers' assessments of their staff. This process is a manual process which increases the risk of introducing errors. However, the data are assessed and validated by the Office of Training Services.

E1.4: Eighty percent of HUD interns are retained and targeted for mission-critical positions in HUD offices.

Background. This indicator is directly linked to the Department's Strategic Plan Strategic Human Capital Management Plan, and the President's Management Agenda. This indicator is a key component of an outcome measure of effective succession planning, which will ensure that the Department's employees have the skills and knowledge they need to achieve HUD's mission and that institutional knowledge is sustained.

HUD's intern programs are used to recruit and develop highly qualified people for mission-critical positions, and to meet future workforce needs. In FY 2007, all HUD intern programs were centralized under the Office of Administration and renamed as the "HUD Fellows" program. This centralization will enable the Department to better accomplish and fulfill its succession planning strategies. HUD is addressing the fact that approximately 49 percent of its workforce is currently eligible to retire and the number increases to 60 percent by FY 2009. The HUD Fellows program offers interns valuable work experiences while providing the training necessary to fill mission-critical skill gaps as employees retire. Key programs used in the succession planning efforts include: a) the Presidential Management Fellow, b) the Federal Career Intern, c) the Legal Honors Intern, and d) the Master's of Business Administration Fellow. The latter program is a recent addition designed to attract recent MBA graduates. The FY 2007 goal was to retain 80 percent of interns that were hired in FY 2006 and prioritize critical occupations for intern placements.

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

Results, impact, and analysis. HUD retained 98 percent of all interns recruited in FY 2006, thus exceeding the 80 percent retention target, and placed them in various program offices in mission critical positions. Additionally, during FY 2007, HUD recruited 47 new interns by making selections under the Presidential Management Fellow, the Federal Career Intern and the Master's of Business Administration Fellow programs. HUD identifies target positions for intern hires through workforce analysis data, areas affected by skill gaps, Full Time Equivalency gaps, and losses from retirement projections. In FY 2008, HUD expects to retain at least 80 percent of its highly qualified interns that were hired in FY 2007. HUD will continue to prioritize critical occupations for intern placements, with the emphasis on closing skill gaps and addressing projected losses from retirements.

Resources and performance link. In FY 2007, the Department spent $107,000 on the HUD Fellows program. This amount includes training and travel expenses. The Department remains committed to retaining interns for mission critical positions.

Data discussion. All performance reports are provided by the program offices and the data are from the National Finance Center. The Office of Administration currently administers the HUD Fellows program and in conjunction with the program offices will provide status reports on intern performance and successful completion of requirements. The Office of Administration is responsible for monitoring and measuring performance against Intern program performance goals.

E1.5: HUD employees continue to become increasingly satisfied with the Department's performance and work environment.

Background. This indicator is directly linked to both the Department's Strategic Plan and its Strategic Human Capital Management Plan, and is tied to the President's Management Agenda. A satisfied workforce translates to a strong workforce and helps to support two of the Department's human capital goals, which are to become a mission-focused agency and to maintain a high-quality, effective, and efficient workforce.

The most recent Organizational Assessment Survey—the tool used by the Department to measure workforce satisfaction—was administered in FY 2005. In response to this survey, in FY 2006, a 2006 Organizational Assessment Survey Action plan was developed in which the Human Capital Steering Committee selected (1) Training and Career Development and (2) Leadership and Quality as the primary areas for Departmental focus to increase employee satisfaction. Subsequently, an Organizational Assessment Survey Project Team, which included representatives from program offices and field training consultants, focused on developing recommendations to improve employee satisfaction for the Training and Career Development dimension. Another team comprising managers developed recommendations to improve employee satisfaction for the Leadership and Quality dimension. Developed recommendations were presented to HUD's Human Capital Steering Committee and approved for implementation.

In FY 2007, HUD expected to implement the recommendations approved by the Human Capital Steering Committee, with preliminary assessment of these implementation activities and results to be used in planning and administering the next Organizational Assessment Survey.

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

Results, impact, and analysis. The Department did not fully meet its target in FY 2007. The Department implemented 23 of the 38 (61 percent) Organizational Assessment Survey recommendations. Examples of recommendations implemented include:

- Making a Departmental commitment to training by increasing the budget allocated for training. In FY 2007, the Department set aside two million dollars dedicated to custom designing training solutions that address HUD's top general and managerial training needs. The increased budget allows Training Services to offer more courses to eliminate mission critical skill gaps.
- Providing appropriate staff to Training Services to support the training function. The Department conducted an A-76 Study/Competition of HUD's training support services to create the most efficient organization. The most efficient organization plan was submitted by HUD employees. HUD began implementing the plan by reassigning the field training consultants to Training Services.
- Assessing the Department's succession planning needs to determine where supervisors will be needed in the future. HUD staff conducted an analysis and produced Retirement Eligibility reports that will help determine where supervisory positions are impacted because of imminent retirements.
- Encouraging the use of Individual/ Professional Development Plans as a career and developmental tool. An Individual Development Plan is required for entrance into the Emerging Leaders and the SES Candidate Development Programs. It is also required for the Fellows program participants. In FY 2007, the Department announced the new

training strategy which required all employees have Individual Training Action Plans to document training and development plans each fiscal year.

In August 2006, the Office of Personnel Management administered the Federal Human Capital Survey, of which 29 major federal agencies, including HUD, participated. This survey, like the Organization Assessment Survey, generated results on employee satisfaction. Because of the more recent results provided by the 2006 Federal Human Capital Survey, a working group developed recommendations in the format of a Federal Human Capital Survey action plan to improve employee satisfaction in the areas of Leadership and Communication. The Training and Career Development and Leadership and Quality dimensions identified by the Organizational Assessment Survey are addressed in these two areas. That is, action items necessary to improve Training and Career Development are included in the recommendations recommended in the Federal Human Capital Survey 2006 Action Plan under the two focused areas which are Leadership and Communications.

The survey results from FY 2004 to FY 2006 do not indicate measurable improvements, which supports the decision to focus on the need to address a HUD cultural change. The results indicate that an organization's cultural environment has a sufficient affect on how employees react/respond to surveys because engaged employees are more likely to respond to survey questions based on actuality.

Federal Human Capital Survey Results Trends*

Survey Question	FY 2002 Baseline	FY 2004	FY 2006 Results
Satisfied with training received for present job	46.5%	44.3%	41.6%
Supervisors/team leaders in my work unit provide employees with the opportunities to demonstrate their leadership skills	55.4%	55.6%	56.0%

* Federal Human Capital Survey Results Trends – 2006 Action Plan authorized July 30, 2007, by the Secretary for implementation

Resources and performance link. Administering another Organizational Assessment Survey would cost the Department approximately $211,500, whereas the Federal Human Capital Survey is administered at no cost to the Department. HUD will administer the Federal Human Capital Survey in lieu of the Organizational Assessment. Both of these surveys generate results on employee satisfaction, but substantial savings will be realized by this action.

Reasons for shortfall/Plans and schedule to meet the goal. Although only 23 of the 38 recommendations were implemented, additional implementation action is scheduled. The Federal Human Capital Survey working group analyzed 2006 Federal Human Capital Survey results, along with the previous years' survey trends, and developed recommendations in an action plan. This action plan—designed to facilitate the accomplishments of items that can be completed in 2007-2008 to improve employee satisfaction—was approved for implementation by the Secretary on July 30, 2007. The Recommendations include but are not limited to:

- *Train managers in Transformational Leadership.* Provide formal "Transformational Leadership Training" to change the current leadership style. For HUD, the advantage of implementing Transformational Leadership includes opportunities to release the potential of employees to achieve in an atmosphere of support, empowerment, and risk taking. Initial training will be offered to all managers and supervisors. Training will be made available for each new manager and supervisor. Additionally, refresher training will be offered every two years.
- *Create and use peer work groups for managers.* Leadership Peer Groups would be formed to enhance the transfer of transformational leadership skills and ideas and to solidify the learning resulting from the initial training.
- *Use E-Performance SMART Plans.* Measurable performance standards will be written and put in place to support and recognize the effective use of transformational leadership skills and will hold managers/supervisors accountable for demonstrating organizational values, development of team members, and results.

The focus of the Action Plan is to transform HUD's organizational culture into a "high performance" one through a transformation effort on improving the style and effectiveness of leadership and communication. The next Federal Human Capital Survey is tentatively scheduled to be administered August 2008.

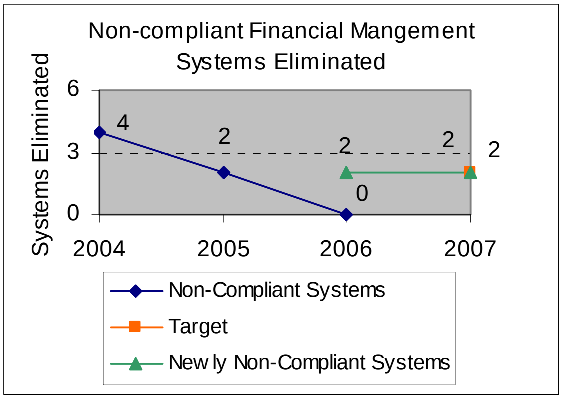
Also, in October 2007, the Annual Employee Survey, which also measures employee satisfaction and is required by law for federal agencies to complete annually by calendar year, was administered to all HUD employees. This Survey concluded on October 19, 2007, and the results will be used to measure the levels of improvement and also to determine any modifications required for the Federal Human Capital Survey action plan.

Data discussion. Both the Federal Human Capital Survey and the Annual Employee Survey were conducted by the Office of Personnel Management on an Interagency Agreement with the Department. The Federal Human Capital Survey is a tool that measures employees' perceptions of whether, and to what extent, conditions that characterize successful organizations are present in their agencies. The survey measures factors that influence employees wanting to come, to stay, and to help the agency meeting its mission. In addition, it allows managers to examine trends to determine accomplishments and to identify areas for improvement.

The survey data are nearly free of sampling error because all employees receive the surveys. Data collected were weighed to produce survey estimates that represent the survey population. The weights developed take into account the variable probabilities of selection across the sample domains, on response, and known demographic characteristics of the survey population. The 2006 response rate was at 49.4 percent. The total employee participation was 4,075 compared to 58.2 percent for 2004 with participation at 5,343 employees. Through focusing on improving leadership and communication, HUD organizational culture can transform to foster an environment of employee engagement. This is "the extent to which employees commit to something or someone in their organization, how hard they work and how long they stay as a result of that commitment."

E2.1: Sustain progress in eliminating non-compliant financial management systems.

Background. As a result of the Federal Financial Management Improvement Act of 1996, all financial management systems are subject to annual review to ensure compliance. At the end of FY 2000, HUD had 67 financial management systems, of which 17 failed federal compliance requirements. By the end of FY 2006, the total number of financial management systems had dropped to 41, and all 17 financial systems identified as non-compliant had been brought into compliance. At the beginning of FY 2007 the Office of the Inspector General released a report identifying two systems as non-compliant: the HUD Procurement System, and the Small Purchase System. During FY 2007, the Department implemented a new financial management system, bringing the total number to 42.



Results, impact, and analysis. This performance initiative is met. Remediation plans for the two non-compliant systems were developed at the beginning of the year by the Office of the Chief Procurement Officer, incorporating corrective actions scheduled into FY 2009. The Department has shown sustained progress in achieving the remediation plan targets. The Office of the Chief Financial Officer is also in the process of implementing the HUD Integrated Financial Management Improvement Project which will modernize its financial management systems consistent with modern business practices, customer service, legislation, and technology.

Data discussion. The Office of the Chief Financial Officer maintains the financial management systems inventory. HUD performs financial management systems compliance reviews on a three-year cycle, or in conjunction with major systems changes, and the Office of the Inspector General also verifies compliance of HUD financial systems as part of its annual financial audit.

E2.2: Ensure timely management decisions and final actions on audit recommendations by the HUD Office of Inspector General.

Background. The Department's two audit resolution goals for FY 2007 were: (1) to achieve 99 percent of its total management decisions in a timely manner and (2) to end FY 2007 with a 50 percent reduction in final corrective actions that were more than 12 months overdue (designated as significantly overdue).

By meeting these targets HUD is helping to ensure that there is a reduction of fraud, waste, and abuse of public funds, which is a primary HUD objective.

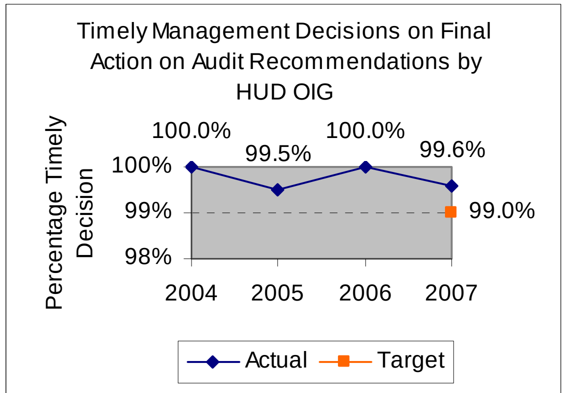
The timely management decisions goal will remain at 99 percent in the FY 2008 APP. The goal for recommendations more than 12 months overdue will be reduced zero.

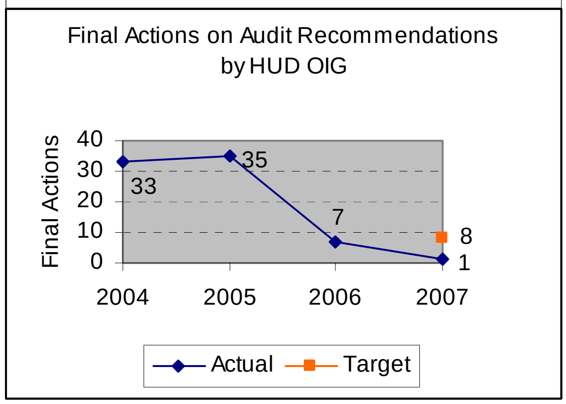
Program website. http://www.hud.gov/offices/cfo/finmgmt.cfm.

Results, impact, and analysis. Both audit resolution targets were met and one was significantly exceeded.

HUD began FY 2007 with a baseline inventory of 1,314 open recommendations. During the year, 842 recommendations were identified as requiring management decisions. The Department reached timely management decisions on 839 (99.6 percent) of those recommendations, which meets the 99 percent goal.

HUD began the FY 2007 reporting period with seven significantly overdue recommendations. Through the year, 63 recommendations were added that would have become overdue by the end of the year if not settled. The year ended with one significantly overdue recommendation. This is a net annual reduction of six potentially overdue recommendations or 85.7 percent, exceeding the 50 percent reduction goal by 35.7 percent.





Resources and performance link. No attempt is made to link resources and performance for this goal, because the implementation of audit recommendations is a necessary management function. Although the time and efforts of various Departmental action officers and some analysis staff are required, the timely implementation of hundreds of audit recommendations may result in improved program performance, better compliance, and possible savings or added costs, depending on the nature of the decisions involved.

Data discussion. Data is obtained from the Audit Resolution and Corrective Action Tracking System. The data are reliable for these measures, since the HUD Inspector General, and the Office of the Chief Financial Officer reconcile and confirm the accuracy of the data.

E2.3: HUD financial statements receive an unqualified audit opinion.

Background. The Department introduced this indicator in order to continue its focus on improving and enhancing HUD's financial stewardship. An unqualified audit opinion is a strong indicator to OMB, the Congress, and the public on the accuracy and completeness of HUD's consolidated financial statements, the reliability of the underlying financial management systems and controls over financial reporting, and the strength of HUD's financial management team. An independent financial statement audit is an important tool to instill confidence in HUD's financial operations and reporting for the Department's external stakeholders. Establishing and maintaining this trust requires a long-term commitment to financial integrity.

HUD received an unqualified audit opinion for seven consecutive fiscal years (2000-2006)—an indicator of financial management discipline and stability. HUD's FY 2007 goals were to: prepare and issue its audited FY 2007 consolidated financial statements by the 45-day deadline of November 15, 2007, with an unqualified audit opinion; continue corrective actions to reduce the number of reportable condition issues; and continue to meet OMB goals for the preparation of quarterly financial statements within 21 days after the end of the quarter.

Program website: http://www.hud.gov/offices/cfo/accounting.cfm

Results, impact and analysis. HUD met its goal of receiving an unqualified audit opinion on its FY 2007 financial statements within 45 days after the end of the fiscal year. The Department has received an unqualified opinion for eight consecutive fiscal years. In addition, all existing material weaknesses and significant deficiencies have been reported.

During FY 2007, HUD also continued to meet its goal for producing quarterly financial statements to within 21 days after the end of the quarter and continued to provide timely financial data for managers to use in making program decisions. HUD will continue to produce the annual and quarterly financial statements within the specified time frames, and take corrective action to strengthen internal controls to eliminate the material weaknesses and significant deficiencies disclosed in the OIG audit of HUD's FY 2007 consolidated financial statements.

Resources and performance link. The financial statements report the cost associated with program delivery. The financial statements identify the major program areas and the budgetary and proprietary resources expended to ensure that HUD met its program goals.

Data discussion. The OIG, along with contracted personnel under their direction, conducts the annual financial statement audit. This audit examines the adequacy of HUD's financial management systems, the effectiveness of internal controls over financial reporting, and compliance with laws and regulations that could have a material effect on the financial statements. The OIG also identifies material weaknesses and significant deficiencies, if applicable, and recommends appropriate corrective actions. OIG audits are independent of HUD management, are performed in accordance with GAO auditing standards, and adhere to the OMB and other guidelines and standards governing the preparation and audit of agency financial statements.

E2.4: HUD will conduct training and exercise the Continuity of Operations Program.

Background. Federal policy requires federal agencies to maintain a comprehensive and effective continuity capability composed of Continuity of Operations and Continuity of Government programs in order to ensure the preservation of our form of government under the Constitution and the continuing performance of national essential functions under all conditions (See National Security Presidential Directive (NSPD)-51 / Homeland Security Presidential Directive (HSPD)-20, *National Continuity Policy*, dated May 4, 2007). A continuity of operations plan ensures HUD is able to continue performing its essential functions under a broad range of emergency circumstances by defining roles and responsibilities and deploying personnel to emergency relocation sites. The Department's FY 2007 goals were to perform quarterly testing of all Headquarters' office Continuity of Operations notification procedures at a 95 percent success rate, and conduct training of at least 80 percent of the Continuity of Operations program office coordinators.

Results, impact, and analysis. In FY 2007, HUD successfully achieved this goal. HUD achieved this goal by performing quarterly testing of all Headquarter Continuity of Operations notification procedures at a 99.6 percent success rate and conducting a Continuity of Operations training conference, which was attended by 81 percent of the program office Continuity of

Operations Coordinators and 95 percent of the HUD Office Coordinators nationwide. Additionally, HUD participated in Exercise Pinnacle, a federal interagency continuity exercise whereby all Headquarter functions were transferred to a regional office. In FY 2008, HUD will continue to perform quarterly testing of Continuity of Operations notification procedures and conduct annual training for program office contacts.

Resources and performance link. The Department spent $2.7 million on Continuity of Operations planning during FY 2007, which included salaries, alternate site support, contractor support services, and travel. This spending is comparable to previous years.

Data discussion. The Office of Security and Emergency Planning maintains a database to document the mandatory reporting of the results of testing and training activities. These activities are conducted in accordance with the HUD Continuity of Operations Program Test, Training, and Exercise plan. HUD maintains comprehensive information by office that quarterly notification tests, annual training sessions, as well as other indicators, have been completed. The information is self-reported by the offices and reviewed by the office heads to ensure accuracy. The Office of Security and Emergency Planning performs an initial evaluation of data quality and GAO/IG may perform independent assessments and evaluations. The data are reliable for this measure.

E2.5: The Accelerated Claim and Asset Disposition demonstration program (Section 601) will exceed the rate of net recovery received through the Conveyance Program on the sale of Single Family assets.

Background. A key element to FHA's business is the payment of claims on defaulted insured loans. Title VI, Section 601 of the Veterans Administration, HUD, and Independent Agencies Appropriations Act (1999) reformed the single family claims and property disposition process. The legislation enables HUD/FHA to: (1) pay claims upon assignment of mortgages rather than upon conveyance of the properties; (2) take assignment of notes and transfer them to private parties for servicing, foreclosure avoidance, foreclosure, property management and asset disposition; and (3) participate as an equity partner with private entities in asset disposition. The overall goal of the Accelerated Claim and Asset Disposition demonstration program is to ensure the FHA's public policy issues are addressed while expediting the disposition of defaulted FHA single family assets and maximizing the return to FHA Insurance Funds. The first demonstration initiative was a sealed bid auction held in October 2002. Claims were paid beginning October 31, 2002. Three subsequent auctions were held September 2003, June 2004, and May 2005. This indicator tracks the rate of recovery received on the sale of Single Family assets through the Conveyance Program.

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

Results, impact, and analysis. As the Accelerated Claim and Asset Disposition Demonstration matures and final disposition outcomes are made, the Department anticipates that recoveries from the program will continue to exceed Conveyance Recoveries of 60.5 percent, thereby meeting the target. Section 601 recoveries as of August 31, 2007, for the four Single Family Sales Initiatives are as follows:

Section 601 Recoveries Table

Single Family Sales Initiatives	Recoveries Adjusted for Claim Cost as of August 31, 2007
Single Family - Sale I 2002 (assets sold in FY 2003)	71 percent
Single Family - Sale II 2003 (assets sold in FY 2003)	74 percent
Single Family - Sale III 2004 (assets sold in FY 2004)	78 percent
Single Family - Sale IV 2005 (assets sold in FY 2005)	76 percent

The average net recovery rate during FY 2007 was 72.93 percent of Unpaid Principal Balance. An average recovery of 73.8 percent of Unpaid Principal Balance has been achieved across the life of the Demonstration.

Resources and performance link. The required resources for the 601 program are minimal, and the contract support needed to properly conduct sales and monitor outcomes is minimal as well. The Asset Sales Office served as the Transaction Specialist for the Single Family Joint Venture sales of 2004 and 2005, which eliminated a contract requirement from previous sales. The 601 program continues to meet the goals as established by the Department.

The **Section 601 Recoveries Table** (see above) indicated, that the two most recent sales have maintained higher recoveries to the Government than the first two initiatives. This is happening in an environment where the Conveyance Program recoveries continue to shrink and the 601 program has required less contract support.

Data discussion. The data source is the Single Family Insurance System—Claims Subsystem, provides the acquisition cost data for this indicator. FHA's Single Family Acquired Asset Management System provides the expense detail for the Conveyance Program (Claims subsystem "type 1" transfer claims) rate of net recovery. FHA's Subsidiary Ledger provides the Accelerated Claim and Asset Disposition recovery rate on sale of assets (Claims subsystem "type 2" claims) through its financial application. For convenience, all data are reported from FHA's Single Family Housing Enterprise Data Warehouse.

E2.6: Use the structure established by Vision 2010 to modernize HUD's information technology systems, maintain well-managed information technology investments, and promote collaboration between business functions.

Background. Vision 2010 is a five-year plan to modernize HUD's business processes and information technology environment, and it represents a significant change in the way HUD designs, invests in, and implements information technology in support of its business. Better information technology can improve service delivery and more effectively carry out HUD's mission. This plan presents a methodology for designing and implementing its information technology systems modernization by promoting collaboration of business functions, or "Segments," and on "Core IT Services." Modernization includes the introduction of shared tools to enhance HUD's current applications and the disposition of redundant or obsolete systems, which will decrease costs associated with these systems. Vision 2010 will also increase access to relevant business information through simple, self-service utilities and improve the effectiveness of interactions between HUD employees, business partners and citizens. This can result in the significant outcomes of improving data and performance.

Not only does it guide the modernization process, this structure provides a blueprint for HUD to direct its Development, Modernization, and Enhancement investments so that no investment allocation is changed without first considering how it affects the whole system. Ultimately, a Department-wide system that encourages coordination in this way can provide cost savings for HUD. Redirected investment allocations will also result in a more optimized information technology portfolio. The Department has not received the funding requested for the Working Capital Fund and underfunding of this effort will either delay or reduce the intended accomplishments.

Program website. http://www.hud.gov/offices/cio/ea/newea/index.cfm

Results, impact, and analysis. The established FY 2007 goals were met. HUD's Enterprise Architecture (EA) has met its target goal to continue significant progress in business system modernization in the areas of Single Family, Multifamily Housing, Rental Housing Assistance, Financial Management, and Grants Management by the following activities:

- Revised EA Transition Strategy (Vision 2010), outlining the continuation of business and IT modernization for enterprise segments, i.e., core mission areas, business services and enterprise services. The revised EA Transition Strategy was reviewed and approved by the Technology Investment Board Working Group (TIBWG) and Technology Investment Board Executive Committee (TIBEC);
- Updated performance architecture for major business and IT modernization initiatives;
- Linking target performance metrics to milestones in the detailed implementation version of the EA Transition Strategy (IT Master Schedule). The IT Master Schedule provides detailed implementation milestones for major modernization initiatives, including single-family housing, multifamily housing, rental housing assistance, financial management, and grants management;
- Developed and implemented segment architecture development guidance and standard decision templates to enhance modernization planning and business decision-making for major modernization initiatives;
- Led facilitation and support efforts for modernization initiatives during each phase of the agency's IT Lifecycle Framework – *architecture, invest and implement* – including modernization planning (segment architecture development), IT investment planning, and program and project management;
- Completed annual Strategic Portfolio Review (SPR), supporting the consolidation of the agency IT investment portfolio and major modernization initiatives around core mission areas, business services and enterprise services. The EA Program Team presented SPR findings to the TIBWG, and conducted one-on-one meetings with business areas to discuss initiative-level and portfolio-level recommendations in advance of the Annual Select;
- Provided consulting services to business areas to support the maintenance and implementation of modernization plans (segment architecture) for major business and IT modernization initiatives. Modernization plans for seven active segments were approved by relevant business owners including Single-Family Housing, Multifamily Housing, Rental Housing Assistance, Financial Management, Human Resources Management, Grants Management, and Enterprise Records Management;
- Completed information flow analysis to develop target data architecture for the Single Family Housing (SFH) core mission area;

- Developed Integrated Project Team (IPT) charter for continuation of Grants Management modernization planning. The EA Program Team is supporting the Grants Management (GM) IPT during development of revised modernization plan;
- Initiated development of a modernization plan for Acquisition Management business services. The EA Program Team is supporting the Acquisition Management IPT during development the modernization plan;
- Implemented a web-based version of HUD's enterprise-wide technical reference model (TRM) and Standards Profile. The TRM and Standards Profile provide guidance for the acquisition, development, integration, deployment, and operation of information systems and infrastructure for modernization initiatives, supporting improvements in enterprise interoperability, asset reuse, and information sharing;
- Aligned major modernization initiatives with cross-agency initiatives described in the Federal Transition Framework including E-Gov initiatives, Line of Business initiatives, and government-wide initiatives, for example, Internet Protocol Version 6;
- Commenced process to update EA Transition Strategy (Vision 21st Century), including collaboration with business areas to revise business performance indicators and measures and define target performance milestones. Collaborated with IT Operations and OSIE staff to verify major implementation milestones and define dependencies to modernization initiatives;

In addition, the following these goals were met by the Office of the Chief Information Officer.

1. 80 percent of Development, Modernization, and Enhancement (non-infrastructure) spending is coordinated through Segment Architectures and Core IT Services.
2. 100 percent of major information technology development investments were reviewed for progress in meeting cost, schedule, risk, and benefit expectations.
3. 100 percent of information technology investments were evaluated against HUD's investment performance indicators.

Resources and performance link. The EA Team spent approximately $1.8 million in FY 2007 Enterprise Architecture efforts to ensure significant progress in business system modernization continues. For fiscal years 2006 and 2007 the Working Capital Fund has been underfunded by a total of $108.1 million (President's Budget vs. Appropriation). IT modernization initiatives will be significantly affected if requests continue to be underfunded.

Data Discussion. Enterprise Architecture activities are included in HUD's Information Technology Strategic Plan for FY 2007 to FY 2012. Status reports provide accurate tracking information on planned activities. Program Managers regularly review the status reports to ensure that planned actions occur. Additionally, these activities are reported in the PMA. HUD's Chief Architect regularly reviews the PMA status reports to ensure that planned actions occur and are reported in the PMA process.

Information Technology Investment Management activities include the Working Capital Fund Operating Plan dated July 31, 2007. The reliability of the data is maintained by a close working relationship between the Office of the Chief Information Officer and Office of the Chief Financial Officer to authorize and verify that funds are available before Office of the Chief Procurement Officer initiates contract actions.

In addition, Project managers record actual costs and schedule projects in individual project plans and upload them to the electronic capital planning and investment control (eCPIC) system.

E2.7: HUD will meet specified information technology-related security requirements.

Background . The Federal Information Security Management Act of 2002 establishes security standards and requires federal agencies to take specific steps to ensure the security of federal information systems. HUD's Information Technology Security Office provides protection for HUD's information systems and resources and has responsibility for implementing security controls in compliance with the Federal Information Security Management Act. The FY 2007 budget requirement of $5.5 million was needed to support the Information Technology Security Program at HUD, however only $1.1 million was allocated in the FY 2007 budget. There are currently 14 full-time equivalent resources allocated to support this program.

In FY 2007, the Information Technology Security Office continued to reduce risks and vulnerabilities and protect HUD's information systems and resources from unauthorized access, use and modification. This included meeting the following three requirements:

Continue the Certification and Accreditation effort to ensuring that 100 percent of major applications documented in the Inventory of Automated Systems have been certified and accredited. This requirement included:

- Integrating information technology security tasks and milestones into HUD's software development lifecycle model to ensure that security controls requirements are identified and addressed in a timely and cost effective manner, and that all information technology systems are certified and accredited prior to their operation.
- Monitoring the status and effectiveness of annual system-level contingency plan testing.
- Reviewing annually all system security plans for currency and completeness, and include deficiencies on Plans of Action and Milestones.

Prioritize and remedy high priority risks. This requirement includes:

- Performing a review of 100 percent of Plans of Action and Milestones, with emphasis on remediation of all weaknesses categorized as high risk.
- Ensuring that independent penetration testing of HUD's information technology infrastructure is conducted annually.

Ensure that 90 percent of HUD employees and contractors will have completed information technology Security and Awareness Training. This requirement includes:

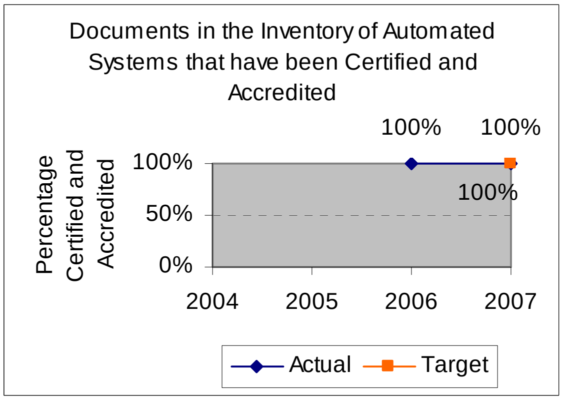
- Promoting enterprise-wide security awareness through provision of computer-based training for all HUD users; specialized information technology security training for personnel assigned significant security responsibilities; and training of personnel serving as primary or alternate Information Systems Security Officers in the roles and responsibilities of that position.

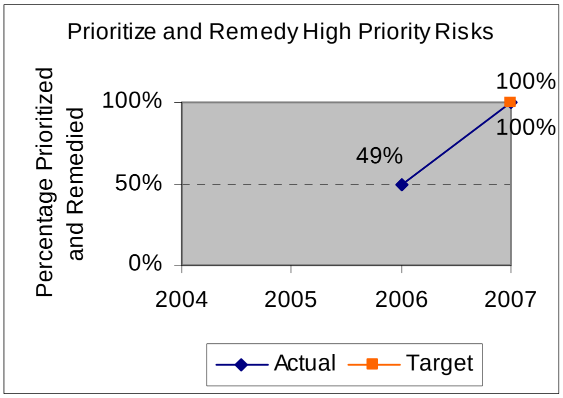
During the midyear adjustment period, the following criteria were added to

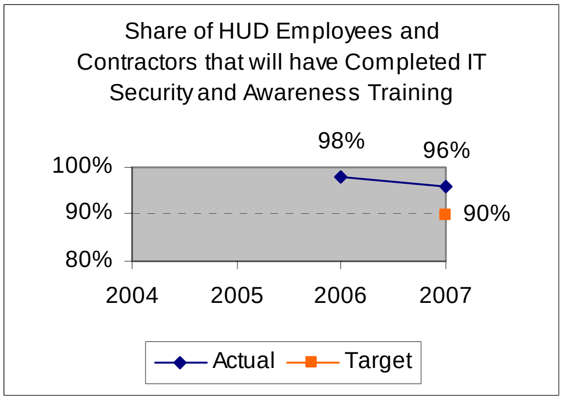
- Develop and manage plan for implementing OMB-directed standard security configurations for Windows XP and Vista; and
- Manage implementation of controls to address PII protection requirements specified in OMB Memo 06-16.

Program website: http://hudweb.hud.gov/po/i/it/security/secure.cfm

Results, impact, and analysis. The established goals were met. The following information highlights the results.







- As of the end of FY 2007, 100 percent of HUD's major applications and general support systems documented in the Inventory of Automated Systems had undergone Certification and Accreditation. The IT Security staff has coordinated with program offices, system owners, and project leads to integrate IT security tasks and milestones into project plans of systems in development, and to ensure that such systems are certified and accredited prior to their operation.
- During FY 2007, the Office of IT Security coordinated with program offices, and system owners, and project management staff to ensure that system level contingency plans were effectively tested and that lessons learned during such testing were integrated into the applicable system contingency plan.
- The Office of IT Security continued its program for annual review of system security plans for all major applications and general support systems for currency and completeness, and included shortfalls in documentation in the plan of action and milestones applicable to the system.
- During FY 2007, individual weaknesses in IT security controls continued to be prioritized according to risk and were recorded in system plans of action and milestones. Corresponding remediation efforts of program offices were monitored for timeliness and completeness, resulting in a substantial reduction in their number. One hundred percent of POA&Ms were reviewed during the year and priority of effort was directed toward mitigation of high impact weaknesses.
- Annual penetration testing of components of the HUD network was conducted by HUD's incident response team.
- Over 96 percent of HUD employees and contractors completed annual information technology security training that included enterprise-wide computer-based awareness training of all users; specialized information technology security training for personnel assigned significant security responsibilities; and provision of role-based training to personnel serving in key security responsibilities.
- Developed and managed a plan for implementing OMB-directed standard security configuration for Windows XP.

- Managed implementation of controls to address requirements for the protection of personally identifiable information as specified in OMB Memo 06-16.

Resources and performance link. OITS Web Site: http://hudweb.hud.gov/po/i/it/security/secure.cfm

Reasons for shortfall/Plans and schedule to meet the goal. All requirements of OMB Memo 06-16 have not been fully implemented pending selection of appropriate commercially-available technological solutions, and funding for those solutions.

Data discussion. The source of this information is the Office of IT Security. Files and records are maintained by HUD's Office of IT Security to substantiate the information provided above. The Chief Information Security Officer has reviewed the information provided in this section and vouches for its reliability and completeness. The data provided addresses progress made during FY 2007 as of September 30, 2007. The validity of the data presented herein can be validated through coordination with the Compliance Division of the Office of IT Security to obtain source documentation related to the submission.

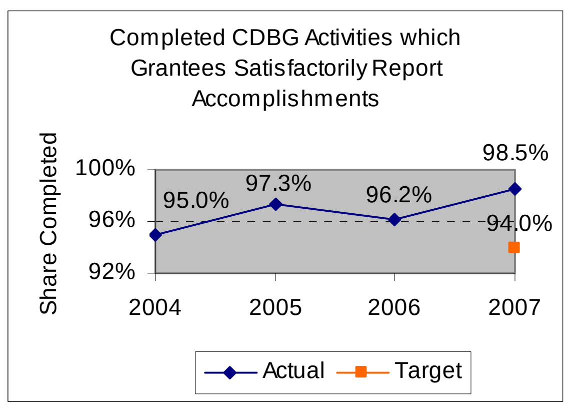
E2.8: The share of completed CDBG activities for which grantees satisfactorily report accomplishments increases to 94 percent.

Background. This indicator reports on the level of reporting of CDBG grant activities into the Integrated Disbursement and Information System, which collects data for HUD's block grant and formula grant programs that serve local jurisdictions—CDBG, HOME Investment Partnerships, Emergency Shelter Grants, and Housing Opportunities for Persons With AIDS. In order to meet the threshold for satisfactory reporting, grantees must report accomplishments for at least 94 percent of activities completed during the fiscal year.

Reporting for CDBG is measured by the proportion of completed activities, for which grantees have reported accomplishments data, based on activities that meet one of the CDBG program's three national objectives.

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

Results, impact, and analysis. Integrated Disbursement and Information System data indicate that 98.5 percent of CDBG grantees entered activity level accomplishment data in FY 2007, thereby exceeding the 94 percent goal and 96.2 percent in FY 2006. The goal will remain at 94 percent for FY 2008. While the goal was met, there is significant variation in the quality and completeness of data entered by grantees.



Resources and performance link. Local governments receive formula CDBG funds either directly from HUD or through states. Local governments and states develop plans and priorities for expenditure of CDBG funds through CPD's consolidated planning process. Grantees enter data into the Integrated Disbursement and Information System to report accomplishments.

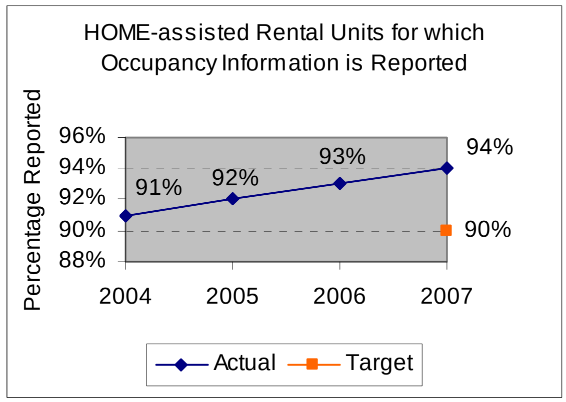
Data discussion. HUD relies on grantees to enter data into the Integrated Disbursement and Information System.

E2.9: The share of HOME-assisted rental units for which occupancy information is reported shall be at least 90 percent.

Background. This indicator tracks the reporting by HOME Investment Partnerships program participating jurisdictions into HUD's Integrated Disbursement and Information System of data describing the households that occupy the assisted rental units. Complete information helps HUD assess compliance with the HOME Investment Partnerships program-assisted tenant income limits, as well as determine who is benefiting from the program.

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

Results, impact, and analysis. The FY 2007 goal was met with 94 percent of rental units having occupancy information reported in the Integrated Disbursement and Information System. This is a one percent increase over the FY 2006 level of 93 percent, and met the FY 2007 goal for maintaining the percentage of rental units for which occupancy information is reported at a minimum of 90 percent. HUD relies on HOME participating jurisdictions to enter data into the Integrated Disbursement and Information System. HUD will continue to use ongoing data clean-up, intensive follow-up with participating jurisdictions, and the individualized PJ HOME performance "SNAPSHOT" and "Dashboard" reports discussed under indicator A1.9 to monitor and improve grantee accountability, and to encourage more complete data entry.



Resources and performance link. There is no direct correlation between the amount of HOME funds appropriated and the occupancy rate of HOME-assisted rental units.

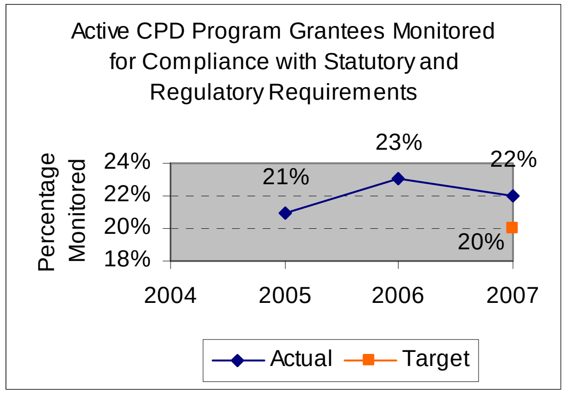
Data discussion. Data entered by participating jurisdictions in HUD's Integrated Disbursement and Information System are used to track performance. Future Annual Performance Plans will continue to track the share of HOME-assisted rental units for which occupancy information is reported. CPD field staff verifies program data when monitoring grantees, and grantee reports are subject to independent audits. An independent assessment was conducted of the data elements for this performance indicator based on the known Validity and Completeness constraints (all elements). All elements scored above four-sigma (reflecting fewer than 6,210 errors per million) for all quality characteristics assessed—i.e., validity, completeness, and consistency. (Tests conducted 5/28/03).

E2.10: A minimum of 20 percent of active CPD program grantees will be monitored for compliance with statutory and regulatory requirements.

Background. Community Planning and Development grantees are recipients of formula and competitive grants designed to assist communities to build viable neighborhoods, expand homeownership and affordable housing, and provide economic opportunities. Specific goals and beneficiaries are identified for consolidated plans and competitive grant applications.

This indicator tracks the extent of monitoring activity by HUD field staff to ensure that grantees are appropriately carrying out HUD Community Planning and Development programs, helping low- and moderate-income families and developing distressed neighborhoods. HUD monitors both active formula and competitive Community Planning and Development program grantees for compliance. Grantees are monitored on-site and remotely.

Results, impact, and analysis. Community Planning and Development grantees are assessed for risk on an annual basis using Community Planning and Development's Risk Analysis Notice. Community Planning and Development Field Offices use results of the risk analysis to select grantees for monitoring during the fiscal year. Community Planning and Development field staff monitored 1,022 grantees or 22 percent of 4,672 active competitive and formula grantees, thereby exceeding the goal of 20 percent.



Resources and performance link. Grantee monitoring validates compliance and improves performance in the effective use of $7.3 billion dollars in community development funding which is approximately 20 percent of HUD's total budget. The number of monitoring activities is dictated by the amount of travel funds allocated and staff resources available to each field office. Monitoring activities compete with other program priorities including technical assistance and training needs.

Data discussion. Community Planning and Development Field Offices report how many grantees were monitored in the Department's internal tracking system, HUD Integrated Performance Reporting System. Monitoring activities are carried out in compliance with guidelines established in the HUD Monitoring Desk Guide (Training Edition) and Community Planning and Development Monitoring Handbook. Field supervisors review monitoring activity and reporting by field staff.

E2.11: The Chief Information Officer will perform quality assessments of data used by HUD's major systems to report on 15 Annual Performance Plan performance indicators not previously assessed.

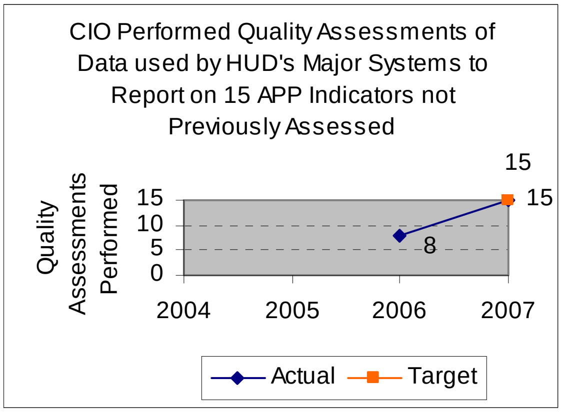
Background. This indicator is being added to capture the Department's efforts and accomplishments in the data quality arena. This indicator directly supports the reliability of the Annual Performance Plan. The Office of the Chief Information Officer oversees information technology investments and ensures that information systems support core business processes and achieve mission-critical goals. Over the years, HUD's program offices have developed a large number of data systems for a variety of business purposes such as controlling financial resources, tracking administrative procedures and recording program impacts. Program offices are ultimately responsible for the quality of their data, including data provided by business partners. The Department's growing concern with the quality of its program data, and the Secretary's desire to accurately report where and how HUD dollars are being spent to revitalize the communities across America, led the Department to establish an Enterprise Information Management Practice. This Practice provides HUD the ability to: manage data as a strategic resource to improve the effectiveness of all HUD initiatives; measure HUD's performance in achieving its mission; and demonstrate the Department's effectiveness and impact on America's communities.

In 2000, HUD launched the Data Quality Improvement Program to ensure that the quality of Annual Performance Plan performance indicator data in HUD Information Technology systems is enhanced. The Data Quality Improvement Program includes a three-step process: 1) independent assessment; 2) data quality cleanup and improvement; and 3) certification. HUD systems used for Annual Performance Plan reporting are required to receive an independent assessment. Based on the results of its independent assessment, HUD staff provides findings and recommendations to the system owners, who are accountable for Step 2 – data quality cleanup and improvement. When implemented, Step 2 actions correct deficiencies and ensure data quality. When data quality is corrected and improvements are completed, the Office of the Chief Information Officer will then perform an independent certification. Step 3 – certification repeats Step 1 by verifying that intended improvements were made and are working.

The EIM Practice is expanding its efforts in providing HUD Program Areas and Lines of Business areas with data management guidance and support. As part of this effort, the Enterprise Information Management Group (EIMG) is conducting Data Management Maturity Assessments in FY 2008 to determine the state of data management practices within HUD. These assessments will be conducted by reviewing the data management practices of HUD's major information systems.

Program website. http://hudatwork.hud.gov/po/i/edm/index.cfm

Results, impact, and analysis. The established goal was met. The Enterprise Information management Group (EIMG) has met its target goal to perform data quality assessments of data used by HUD's major systems to report on 15 Annual Performance Plan performance indicators not previously assessed. EIMG assessed the Annual Performance Plan performance indicators listed below.



Resources and performance link. The EIMG spent approximately $400,000 in FY 2007 to ensure the data quality of HUD information systems. Our efforts were focused on systems supporting the Annual Performance Plan.

Data discussion. During FY 2007, the EIMG transitioned from an assessment focused team to a certification-focused team. In this role, the EIMG evaluated the new performance indicators and ensured that the supporting systems are certified at HUD's quality standard. HUD's current data standard is 4 sigma (99.379 percent correct).

The goal of the EIMG is to advance the Practice from a strictly oversight function to a management support practice that provides value to the business areas, including:

- Reconciliation of different interpretations of data
- Accessibility to the uses of data across the enterprise, its composition and its source

- Streamlined data management functions
- Promote data sharing and reuse
- Establish data standards and governance models

FY 2007 PI	Underlying System(s)	Date Assessed/Certified
H.1.3	CHUMS	12/27/06
H.1.4	CHUMS	12/27/06
H.2.4	CHUMS	12/27/06
A.1.17	HOPE VI	12/27/06
A.1.9	IDIS-HOME	2/14/07
B.1.2	IDIS-HOME	2/14/07
A.5.1	PIC	2/14/07
B.4.1	PIC	2/14/07
A.5.2	PIH-LOTUS	6/29/07
A.3.1	RESPA	6/29/07
B.1.9	IDIS-CDBG	9/14/07
C.2.2	IDIS-CDBG	9/14/07
C.3.5	IDIS-CDBG	9/14/07
E.2.8	IDIS-CDBG	9/14/07
C.3.6	MFIS	9/12/07

E2.12: Respond to 2,000 inquiries, complaints and subdivision registrations related to the Interstate Land Sales Full Disclosure Act.

Background. The Interstate Land Sales program protects consumers from fraud and abuse in the sale or lease of land. In 1968 Congress enacted the Interstate Land Sales Full Disclosure Act, which is patterned after the Securities Law of 1933 and requires land developers to register subdivisions of 100 or more non-exempt lots with HUD and to provide each purchaser with a disclosure document called a Property Report. The Property Report contains relevant information about the subdivision and must be delivered to each purchaser before the signing of the contract or agreement.

Program website: http://www.hud.gov/offices/hsg/sfh/ils/ilshome.cfm

Results, impact, and analysis. The Office of Interstate Land Sales completed 5,786 registration filings and reviewed 1,823 complaints.

Resources and performance link. The Office of RESPA and Interstate Land Sales closed 204 ILS cases which included addressing consumers' complaints with the purchase of improved and unimproved land as well as issuing developers Exemption Orders, Advisory Opinions and No Action Letters. Five of the cases were consumer redress cases which returned $3.2 million to consumers for unlawful and misleading sales practices. The Office also closed four ILS cases with executed settlement agreements or with voluntary compliance from developers. The Office collected ILS registration and Exemption Order fees in the amount of $680,558. The Office was also involved in outreach by educating developers and their representatives concerning ILS compliance issues.

Data discussion. The data compiled from the Office of Interstate Land Sale's Case Management System, which maintains an electronic record of complaints and telephone calls received by the office. In addition, e-mail responses are maintained in Lotus Notes via the designated e-mailbox. Management reviews this tracking system and e-mails on an ongoing basis.

E2.13: By the end of FY 2013, HUD will have an enterprise-wide financial management system that is compliant with all laws and regulations.

Background. This long-term outcome performance indicator has been added to the FY 2007 APP to track progress on an integrated agency accounting and financial management system that provides complete, reliable, consistent, and timely information that is prepared on a uniform basis and is responsive to the financial needs of management. The goal for FY 2007 is for the Office of the Chief Financial Officer to conduct a full and open public-private competition to select a qualified system integrator/shared service provider for the HUD Integrated Financial Management Improvement Project.

This project will align four financial management modernization initiatives to integrate all core financial management functions via a phased implementation approach, providing management with a single source for all financial and budget information for decision making. This effort will enable management to more efficiently and effectively allocate resources to critical programs for safe and affordable housing.

Results, impact, and analysis. The goal was met. During FY 2007, the Integrated Project Team in the Office of the Chief Financial Officer prepared and distributed a solicitation for a system integrator/shared service provider to assist HUD to achieve an integrated financial management system by FY 2012, for full implementation by FY 2013. The Integrated Project Team has identified 16 legacy systems for retirement and/or consolidation and developed a roadmap to support a phased integration of the four core financial systems currently maintained by the Department.

The OCFO Integrated Procurement Team is on schedule to complete the solicitation in FY 2008.

Resources and performance link. A single integrated financial system will reduce internal and contractor resources required to support core financial system functions.

Data discussion. Progress on this goal is being tracked in the Office of the Chief Financial Officer.

E3.1: HUD partners become more satisfied with the Department's performance, operations, and programs.

Background. HUD partners are critical to the Department's overall performance. These partners, which include government, nonprofit, and for-profit entities, provide service delivery for a majority of HUD programs. Increasing their satisfaction with HUD makes them more able to support HUD in achieving common objectives. During FY 2001, the Office of Policy Development and Research surveyed eight partner groups to assess partner satisfaction with the Department and perceptions of management changes at HUD, and conducted a second stakeholder survey during FY 2005. The Department's goal has been to observe an increase in satisfaction among partner groups.

Program website. The 2006 report, "Partner Satisfaction with HUD's Performance," as well as the report for the baseline survey, is available at www.huduser.org

Results, impact, and analysis. Compared with FY 2001 respondents, five of eight partner groups expressed greater satisfaction with HUD's programs in FY 2005. The change was statistically significant for one of the five groups, Mayoral partners.

Of the eight partner groups, three expressed greater satisfaction with HUD's operation of those programs. The change was a statistically significant improvement for two groups, Community Development Department and Public Housing Agency partners, and a statistically significant decrease for one group, Section 202/811 Multifamily Housing partners.

The Department will continue to maintain as a top priority the model of using partners as highly effective means of delivering program resources and producing key results. Significant improvements have been proposed including legislative reform of the Public housing, Section 8, Community Development Block Grant, Federal Housing Administration, HOPWA formula program and homeless consolidation program.

Results of HUD Partner Surveys, FY 2001 and FY 2005

	Percent satisfied or very satisfied with "the HUD programs you currently deal with"		Percent satisfied or very satisfied with "the way HUD currently runs those programs"	
	2001	**2005**	**2001**	**2005**
Community Development Department partners	87%	92%	73%	*81%
Mayoral partners	88%	*91%	79%	79%
Public Housing Agency partners	59%	64%	39%	*50%
Fair Housing Assistance Program Agency partners	85%	84%	68%	66%
HUD-Insured Multifamily Housing partners	69%	67%	60%	58%
HUD-Assisted Multifamily Housing partners	62%	78%	53%	53%
Section 202/811 Multifamily Housing partners	88%	82%	78%	*70%
Non-profit Housing partners	62%	66%	52%	57%

* Statistically significant change with 95% confidence.

Resources and performance link. An important finding of the 2001 baseline research was that partner groups—or individuals within partner groups—were substantially more likely to hold unfavorable opinions if they perceived the Department's role as "mainly regulating" rather than "mainly support" or "equally providing support and regulating." A corollary is that partner satisfaction is likely to decrease when funding levels decline.

Data discussion. The data provide useful and generally reliable information about partner groups' perceptions of the Department. The survey instruments used in FY 2001 and FY 2005 each were pre-tested to validate the data collection. The surveys differ slightly in focus because the management environment has changed. The FY 2005 survey maintains a core set of questions to ensure comparability with the earlier survey. The response rate for the FY 2005 survey was 73 percent, substantially higher than typical levels for comparable surveys. If resources are available, a third partner survey will be conducted in FY 2008, and results would be released during FY 2009.

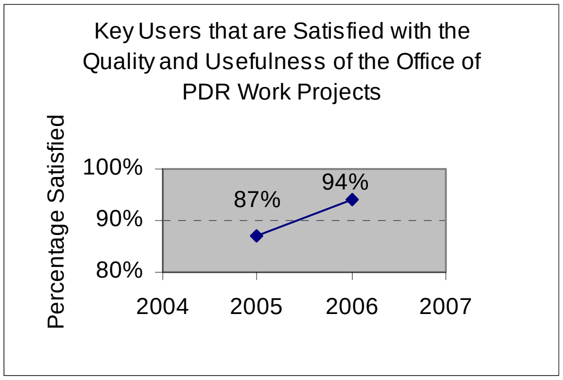
E3.2: At least 85 percent of key users (including researchers, state and local governments, and private industry) will be satisfied with the quality and usefulness of the Office of Policy Development and Research work products.

Background. The Office of Policy Development and Research is charged with providing data on housing and urban conditions to support program operations and external research, evaluating HUD programs, and preparing studies on housing conditions, policy, and technology. A FY 2001 baseline set of discussions with key stakeholders and selected research users found that 81 percent rated the Office's research products as "valuable." The stakeholders and users interviewed during the baseline research included academics, nonprofit researchers, building professionals, trade and manufacturing associations, financial institutions, and housing advocacy groups.

During FY 2005, follow-up surveys focused on customers of the Office of Policy Development and Research's online distribution center, HUD USER. The survey respondents represented three groups of customers: visitors to the website, subscribers to HUD USER's News and American Housing Survey listservs, and users of the Regulatory Barriers Clearinghouse listserv and website. Listserv customers generally may be considered key users.

Program website. www.huduser.org

Results, impact, and analysis. This indicator relies on a periodic survey that was not conducted during FY 2007. In addition, because of limited resources and a relatively recent survey in 2005, further survey activity has been postponed. During this interim, the National Academy of Sciences has been contracted to evaluate the research agenda and operations of the Office of Policy Development and Research. The Academy's evaluation, expected to be completed during FY 2008, will inform the next survey effort, as well as future efforts to make research products more useful and serve a broader audience.



Among the FY 2005 survey respondents, 87 percent of all users were highly satisfied or moderately satisfied with the quality of the information available on HUD USER. Satisfaction with the quality of information was even higher among the key users of the listserv groups, reaching 94 percent. Regarding the HUD USER website itself, 84 percent of respondents expressed satisfaction. The final report, "Assessment of the Office of Policy Development and Research Website," is available at the link above.

Resources and performance link. The level of research funding under the Research and Technology account was $30.3 million in FY 2007. The level of funding is a major factor affecting this indicator. The FY 2007 research funding was approximately the same as in FY 2006 but both reflect a $10 million reduction from the FY 2005 level.

Because of low funding in recent years, the number of downloads of research products is likely to continue to decrease. About 75 percent of the Office's FY 2007 research budget of $29.7 million was allocated to mandatory data collection efforts such as the American Housing

Survey and to other fixed costs. Limited resources remained for discretionary research efforts needed to evaluate and strengthen national housing and community development programs and policy. Lower appropriations have reduced the pipeline of major research efforts, with the result that fewer highly-demanded products are likely to be published in the next few years, and downloads of research products are expected to decrease.

See discussion under indicator E3.3.

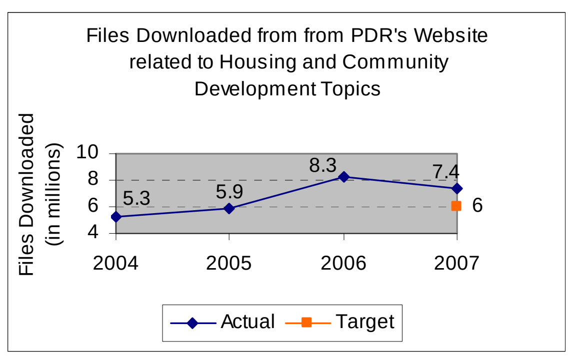
Data discussion. This indicator is measured using periodic customer surveys. The FY 2005 data consist of 10,795 valid responses to the website survey and 1,832 valid responses to the listserv surveys (995 for News and American Housing Survey listservs and 837 for the Regulatory Barriers Clearinghouse listserv). All users between October 7, 2004, and December 10, 2004, were asked to participate. To boost the rate of response to the survey, respondents were offered research publications valued at up to $10. An analysis conducted to validate the sample revealed no significant differences between respondents and non-respondents, nor between visitors during the survey period and the rest of the year.

E3.3: More than 6.0 million files related to housing and community development topics will be downloaded from the Office of Policy Development and Research's website.

Background. In 1978, the Office of Policy Development and Research established HUD USER, an information resource for housing and community development researchers and policymakers. HUD USER, providing over 1,000 publications and datasets, is one of the principal sources for federal government reports and information on housing policy and programs, building technology, economic development, urban planning, and other housing-related topics. HUD USER also creates and distributes a wide variety of useful information products and services and provides research support in the form of an email- and phone-based Help Desk. Substantial HUD USER activity is an indication of the value of the Office of Policy Development and Research's work, and of HUD USER's coordination and outreach activities on behalf of HUD's customers. The FY 2007 goal, as revised in the FY 2008 Annual Performance Plan, was 6.0 million downloads.

Program website. www.huduser.org

Results, impact, and analysis. During FY 2007, users of the HUD USER research clearinghouse downloaded nearly 7.41 million electronic files, surpassing the goal of 6.0 million downloads. The volume is 10 percent less than the FY 2006 tally of 8.25 million downloads. The downloads were accomplished during 4.9 million visits to the HUD USER website. The number of downloads varies from month to month, reflecting the timing and popularity of new reports and information.



Resources and performance link. The level of research funding under the Research and Technology account was $30.3 million in FY 2007. The level of funding is a major factor affecting this indicator. The FY 2007 research funding was approximately the same as in

FY 2006 but both reflect a $10 million reduction from the FY 2005 level. The budget linkage operates by directly affecting the number and scope of program evaluations, policy assessments, and building technology studies conducted by the Office of Policy Development and Research.

Because of lower funding in recent years, the number of downloads of research products is likely to continue to decrease. About 75 percent of the Office's FY 2007 research budget of $29.7 million was allocated to mandatory data collection efforts such as the American Housing Survey and to other fixed costs. Limited resources remained for discretionary research efforts needed to evaluate and strengthen national housing and community development programs and policy. Lower appropriations have reduced the pipeline of major research efforts, with the result that fewer highly-demanded products are likely to be published in the next few years, and downloads of research products are expected to decrease.

In addition, informational marketing efforts for HUD USER, which are funded from the same source, have been curtailed, with the effect that fewer state and local practitioners who need research products can be informed that they exist.

To sustain policy-relevant research, the Office of Policy Development and Research is seeking resources from program offices for priority research efforts, and also is conducting more studies in-house.

Data discussion. The data are gathered in monthly reports from Sage Computing, HUD's web hosting and content management provider for HUD USER, and provide a reliable portrayal of usage trends. Beginning in mid-2003, the counts have been generated with WebTrends software, a standard analytical application in the web hosting industry. Although no counting errors are likely, users may download multiple files while obtaining the information they were seeking, and a single user may download the same product more than once. An effort has been made to exclude partial downloads, but a small proportion of partial downloads are known to remain in the total. A survey of HUD USER customers during FY 2005 (see indicator E3.2) provided independent qualitative and quantitative information for validating usage patterns from automated data.

E3.4: One hundred percent of HUD's competitive grant packages will be available electronically through Grants.gov/Apply for those programs the Grants.gov system can accommodate.

Background. HUD had more than 63 active grant programs administered by six program areas that obligated and monitored approximately $29.6 billion of HUD's $37.5 billion FY 2007 budget. The Department works to ensure effective management and deliveries of these grant programs to clients and residents of the communities that are receiving HUD assistance. The FY 2007 goal was to place 100 percent of competitive grant programs able to use Grants.gov on Grants.gov Find and Apply. This goal directly responds to the goal of the President's Management Agenda for e-Grants to expand e-government by making grant applications available electronically through the Internet.

Program website. www.hud.gov/grants

Results, impact, and analysis. HUD met its goal by ensuring that all 41 (100 percent) of the competitive grant programs are able to use Grants.gov are available in electronic format on Grants.gov find and Apply. As with FY 2006, the Continuum of Care was exempted because

Grants.gov still does not have a solution for posting collaborative application packages. HUD is providing time and cost savings to the grantees because they do not have to copy and ship multiple applications to HUD Headquarters and field offices.

Resources and performance link. In FY 2007, HUD contributed $1,073,675 to Grants.gov. The savings and efficiencies associated with this cost benefit grant applicants and the Department. Applicants experience significant savings because, unlike in the past, they neither need to submit multiple copies of their grant applications nor submit copies to multiple addresses. HUD grant program offices save substantial time and money through greater efficiencies. These offices save two to three weeks because they no longer have to log applications as they arrive or reconcile applications sent to Headquarters with copies sent to field offices. Also, applications no longer need to be copied and mailed to field offices for review. All offices in HUD Headquarters and in field offices have access to the same copy immediately after the application deadline. Also, elimination of manual data entry has eliminated errors in the data, and may save an additional two weeks in time required for processing applications.

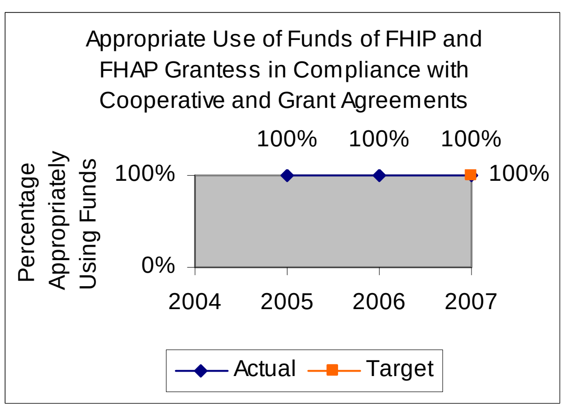
Data discussion. Office of Departmental Grants Management and Oversight monitors the number of applications made available on Grants.gov/Apply and reports are compiled by Grants.gov and disseminated to all the federal grant-making agencies and OMB on an on-going basis.

E3.5: Ensure appropriate use of funds among 100 percent of Fair Housing Initiatives Program and the Fair Housing Assistance Program grantees in compliance with cooperative and grant agreements.

Background. Agencies funded through the Fair Housing Initiative Program and the Fair Housing Assistance Program provide services to all segments of society in support of ensuring equal opportunity in housing. These programs constitute the only grant programs within HUD's Office of Fair Housing and Equal Opportunity. Fair Housing Assistance Program assistance includes support for complaint processing, training, technical assistance, data and information systems, and other fair housing projects. The program is designed to build coordinated intergovernmental enforcement of fair housing laws and provide incentives for states and localities to assume a greater share of the responsibility for administering fair housing laws. The Fair Housing Initiative Program funding enables recipients to carry out activities designed to inform the public about rights and obligations under federal, state, and local laws prohibiting housing discrimination, and to enforce those rights.

Program website. http://www.hud.gov/offices/fheo/partners/index.cfm

Results and analysis. In FY 2007, HUD monitored 100 percent of its Fair Housing Initiatives Program grant agreements and Fair Housing Assistance Program cooperative agreements to ensure appropriate use of funds. Each year the Office of Fair Housing and Equal Opportunity has consistently monitored 100 percent of its grants and cooperative agreements. The number of monitoring reviews conducted is based upon the total number of



active Fair Housing Initiatives Program grants and the total number of substantially equivalent agencies in the Fair Housing Assistance Program at the beginning of the fiscal year.

HUD awarded $18.1 million in grants to 102 groups in 85 cities throughout the nation to help reduce housing discrimination at the end of FY 2006 for use in FY 2007 and all agencies were monitored during FY 2007. More that $25 million was allocated to 106 HUD Fair Housing Assistance Program partners and, like the Fair Housing Initiatives Program, all agencies were monitored.

Resources and performance link. HUD monitors all grantees to ensure appropriate program compliance and use of funds. In-depth agency-specific monitoring was conducted on all high-risk grantees. To the extent there were significant issues, concerns, or findings identified during monitoring and technical assistance, HUD required immediate corrective action.
Agencies funded through the Fair Housing Initiative Program and the Fair Housing Assistance Program provide services to all segments of society in support of ensuring equal opportunity in housing. These programs constitute the only grant programs within HUD's Office of Fair Housing and Equal Opportunity. Fair Housing Assistance Program assistance includes support for complaint processing, training, technical assistance, data and information systems, and other fair housing projects. The program is designed to build coordinated intergovernmental enforcement of fair housing laws and provide incentives for states and localities to assume a greater share of the responsibility for administering fair housing laws. The Fair Housing Initiative Program funding enables recipients to carry out activities designed to inform the public about rights and obligations under federal, state, and local laws prohibiting housing discrimination, and to enforce those rights.

Program website: http://www.hud.gov/offices/fheo/partners/index.cfm

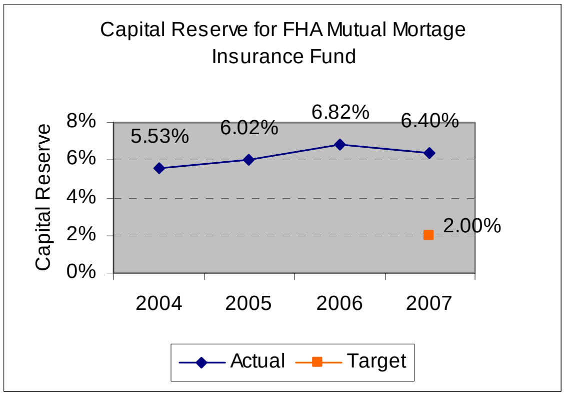
Data discussion. Each Office of Fair Housing and Equal Opportunity Regional and Field office is required to monitor Fair Housing Initiative Program grantees and Fair Housing Assistance Program agencies within their jurisdiction. Each office reviews grantee and agency records for compliance. Monitoring records are maintained in each local office and data is entered into HUD's Integrated Performance Reporting System. Local office activities are monitored by the Office of Fair Housing and Equal Opportunity's Office of Field Oversight administrative records.

E3.6: The FHA Mutual Mortgage Insurance Fund meets congressionally mandated capital reserve targets.

Background. FHA's Mutual Mortgage Insurance Fund (Fund) pays all expenses, including insurance claims incurred under FHA's basic single family mortgage insurance program. The capital ratio is an important indicator of the Fund's financial soundness and of its continuing ability to make homeownership affordable to renters even when economic downturns increase insurance claims. The insurance program and Fund are expected to be entirely self-financing from up-front and annual insurance premiums paid by borrowers obtaining FHA mortgage loans as well as from earnings on fund assets. The Department is expected to operate the program in an actuarially sound way and the Fund is subject to an annual independent actuarial study. The results of that study are published in an Actuarial Review that is provided to the Congress. The review assesses the Fund's current economic value, its capital ratio and, its ability to provide homeownership opportunities while remaining self-sustaining based on current and expected future cash flows. The economic value is defined as the sum of FHA's capital resources plus the net present value of expected future cash flows (resulting from premium collections, asset earnings, and insurance claim losses). The capital ratio is the current economic value divided by the unamortized insurance-in-force.

Program website. http://www.hud.gov/offices/hsg/hsgrroom.cfm

Results, impact and analysis. The FY 2007 Actuarial Review estimates the Fund capital ratio to be 6.40 percent as of September 30, 2007. The ratio represents a 0.42 percentage point decline from the FY 2006 result of 6.82 percent and remains far above the congressionally mandated minimum of 2 percent. Roughly half of the decline during FY 2007 was caused by a drop in the actual economic value of the Fund and the other half due to growth in the insured portfolio. Economic value declined by 3.4 percent to $21.27 billion while insurance in force rose 2.87 percent from $323 billion to $332 billion.



HUD projects even more growth in the insured portfolio in FY 2008, due to recent restrictions in credit availability in the non-agency, conventional mortgage market, and to administrative actions taken to expand insurance eligibility. In August, the Administration introduced *FHA Secure*, an initiative designed to make it easier for homeowners trapped in high-cost subprime loans to refinance into safer, more affordable, fixed rate loans with FHA insurance. In September, HUD published a Federal Register notice of its intention to adopt a more risk-based differentiation of insurance premiums for FHA single-family insurance. FHA Modernization legislation, currently under consideration by the Congress, would significantly expand FHA's ability to service homebuyers and homeowners with safer mortgage products at lower prices than many have paid in the conventional market.

Resources and performance link. The measure of the capital reserve protects a portfolio of insurance valued at $332 billion. HUD obligated $759,531 in contract funds for the FY 2007 actuarial study and formal written Actuarial Review. The final capital ratio is scrutinized by the HUD OIG, the GAO, and the Congress, as an indication of the ability of FHA single-family insurance programs to remain self-supporting in the future. That ratio remains well above the minimum statutory requirement of 2 percent even in the midst of one of the worst housing downturn experienced by the U.S. in modern times. While the capital ratio declined in FY 2007, it is expect to grow again in the future, confirming that Mutual Mortgage Insurance Fund supported programs are on a long-term sustainable path.

Data discussion. The value of the capital ratio is determined through an annual independent actuarial study of the Mutual Mortgage Insurance Fund. Data on historical loan originations and performance are provided to the actuarial study contractor by HUD. The contractor then develops statistical and financial models to project future cash flows on outstanding business, and to measure the final capital ratio number. FHA loan-level data are entered into HUD information systems by direct-endorsement lenders and loan services, with monitoring by FHA.

The methods and results of the independent actuarial study are validated through the audit process.

E4.1: The high incidence of program errors and improper payments in HUD's rental housing assistance programs will be reduced.

Background. The Improper Payments Information Act of 2002 requires federal agencies to assess improper payment risks and to measure and report on programs and activities that may be susceptible to improper payments totaling in excess of $10 million annually. HUD is measuring the risk of improper payments in its rental housing assistance programs.

HUD is required to annually set goals and report on its progress in reducing gross improper payment levels as a percentage of total program payments. HUD set an aggressive goal of reducing improper payment levels as a percentage of total program payments for FY 2006 at five percent. The annual calculation of Improper Payments is based on prior year payment data. Accordingly, the FY 2007 Performance and Accountability Report reflects HUD's progress against the FY 2006 goal.

Overpayments and underpayments of rent subsidies adversely affect intended program beneficiaries, because a subsidy overpayment means that less assistance is available for other eligible families and a subsidy underpayment means that low income families are paying more rent than they should.

The rental housing assistance programs (public housing, Housing Choice Vouchers, and project-based assistance programs) constitute HUD's largest appropriated activity, with over $27 billion in annual expenditures. There are three major sources of error in these complex programs:

- Program administrator error: the program administrator's failure to properly apply income exclusions and deductions and correctly determine income, rent, and subsidy levels;
- Tenant income reporting: the tenant beneficiary's failure to properly disclose all income sources; and
- Billing error: errors in the billing and payment of subsidies between third party program administrators and HUD. Billing errors are discrepancies between the proper subsidy level (based on the actual rent charges) and the amount that HUD is actually billed.

Program websites. http://www.hud.gov/offices/pih/, http://www.hud.gov/offices/hsg/

Results, impact, and analysis. The goal for the FY 2007 reporting period (based on FY 2006 data) was not met. The FY 2006 goal was 5.0 percent, and the Improper Payments study completed in FY 2007 shows that HUD's Improper Payments rate for FY 2006 was 5.5 percent.

Rental Assistance Improper Payment Reduction Outlook
FY 2006 – FY 2009
(Dollars shown in billions)

Activity	FY 2005 Payments	FY 2005 IP $	FY 2005 IP % Goal/Actual	FY 2006 Payments	FY 2006 IP $	FY 2006 IP % Goal/Actual	FY 2007 IP % Goal *	FY 2008 IP % Goal *	FY 2009 IP % Goal *
Rental Assistance	$27.242	1.464	5.6 / 5.4	$27.505	1.519	5.0/5.5	5.0	3.0	2.5

* The annual Improper Payments calculation is based on prior year data. Accordingly, the FY 2007, FY 2008, and FY 2009 goals will be reported in the FY 2008, FY 2009, and FY 2010 PARs respectively.

Reasons for shortfall/Plans and schedule to meet the goal. This slight increase in erroneous payments, as a percentage of total program payments, was primarily due to increases in the level of tenant income reporting errors of approximately $26 million compared to the level in the prior study. This increase was primarily attributable to three factors:

1) **Revised Research Methodology.** A revised research methodology was implemented in the FY 2007 study. This revised methodology was incorporated based on recommendations from HUD's Office of the Inspector General. The revisions were recommended to take advantage of the capabilities of the Enterprise Income Verification System, and required third party verification of income in instances where an income source was evident in quarters adjacent to the quarter being reviewed. These revisions broadened the rules used to identify unreported sources of income in the database, thereby increasing the number of potential candidates with underreported income which required more third party verifications;

2) **Increased Verification Response Rates.** Employer response rates (i.e., third party verification rates) increased from the FY 2006 study to the FY 2007 study, which provided more complete information on which to determine and extrapolate unreported sources of income; and

3) **Enterprise Income Verification Implementation and Use.** The implementation of this verification tool to HUD's Project Based Owners was delayed until FY 2008. Additionally, due to a need for training and a change in business models, HUD's Public Housing Agencies did not fully incorporate the use of the Enterprise Income Verification system into their day-to-day operations during FY 2006.

HUD believes that the general downward trend in tenant income error will continue as the result of an improved methodology for reviewing income discrepancies identified through computer matching and third party verification to better determine actual cases of underreported income affecting subsidy levels. The reduction will also be facilitated by: technical assistance and training to minimize administrator errors; implementation of the Enterprise Income Verification system in multifamily housing; and approval of a proposed rule, which was published in FY 2007 and which is planned for final implementation in late FY 2008, that will mandate use of the Enterprise Income Verification system.

HUD revised the FY 2007 goal based on the aforementioned change in research methodology, the increase in third party verification response rates, and the delay in the Enterprise Income Verification implementation for HUD's Project Based/Owner Administered housing until

FY 2008, coupled with the need to improve PHA usage of the capabilities of the Enterprise Income Verification system. HUD believes that the goals for FY 2007 and beyond are realistic and achievable. HUD has reduced its baseline erroneous rental assistance payment estimates of $3.4 billion by over 55 percent since 2000.

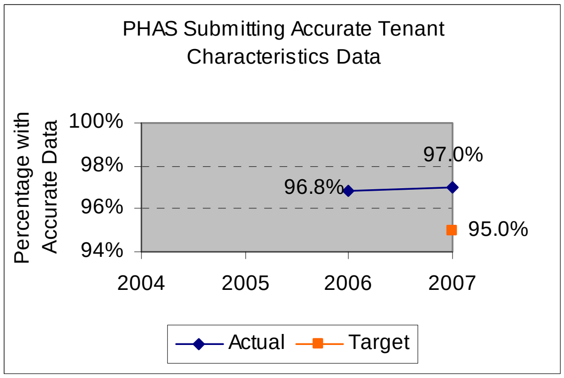
Data discussion. Periodic error measurement studies directed by the Office of Policy Development and Research provide the basis for measuring this indicator. The data are reliable for this measure, assuming availability of funding to cover the cost of the study. The independent HUD OIG reviews the error measurement methodology and support, as well as management controls over the related program activity, as part of its annual audit of HUD's financial statements. In compliance with OMB implementing guidance for the Improper Payments Information Act of 2002, future measures of improper payments and goals for reducing improper payments will be expressed in terms of gross improper payment estimates as a percentage of total annual program payments.

E4.2: PHAs will submit accurate tenant characteristics data on 95 percent of the households in accordance with established time frames and 95 percent of the required financial statements on a timely basis.

Background. Accurate and timely information about the households participating in HUD's housing programs is necessary to allow HUD to monitor the effectiveness of the programs, assess agency compliance with regulations, and analyze the affects of proposed program changes. Several outcome indicators in the Annual Performance Plan use data about public housing or voucher households that housing agencies electronically submit to the Inventory Management System through the Form 50058 module. Similarly, the timely submission of required financial information is instrumental in the Department providing the required oversight of PHA operations. Accordingly, HUD measures the timely submission of these reports.

Program website. http://www.hud.gov/offices/reac/products/prodpha.cfm

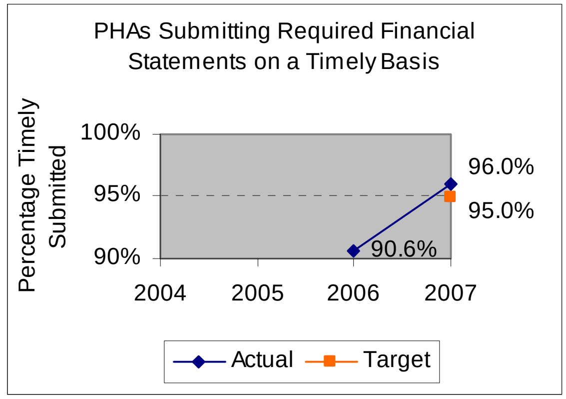
www.hud.gov/offices/pih/systems/pic/50058/



Results, impact, and analysis. HUD was successful at achieving both of these goals for FY 2007. The national tenant characteristics reporting rate was 97 percent. This exceeded the goal by two percent and was similar to the rate for FY 2006. The on-time reporting rate for financial statements was 96 percent versus a goal of 95 percent.

Data discussion. Reporting rates are determined from the standard reports that use the Form 50058 data in the Inventory Management System. The rates are based on data PHAs submitted to the Inventory Management System through August 31, 2007. Late reporting is identified by automated reports from the Form 50058 module that specify late re-certifications for each housing agency and flag poor reporters.

For the financial statement goal, reporting rates are determined from the standard reports contained in the Real Estate Assessment Center's production database. Late reporting is identified by the automated Late Presumptive Failure process. PHAs that fail to submit their financial information by the required timeframes or obtain a failing financial score are designated Troubled under the Public Housing Assessment System and are subject to further review by the applicable Field Office. The identification of housing agencies that report poorly is straightforward and easily verifiable.

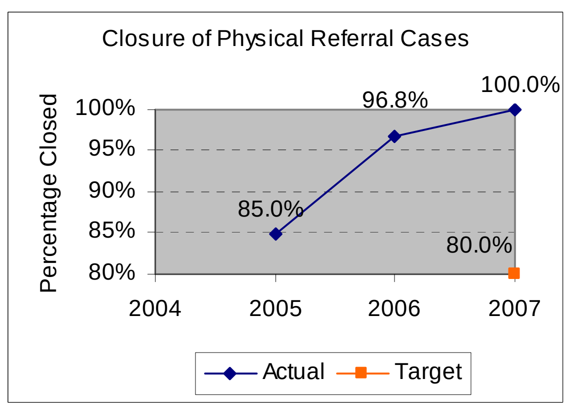


E4.3: By taking aggressive civil or administrative enforcement actions, the Departmental Enforcement Center will assist the Office of Multifamily Housing maintain the insured and/or assisted Multifamily housing properties in physically acceptable condition by closing 80 percent of the physical referral cases in Departmental Enforcement Center as of October 1, 2006, by September 30, 2007.

Background. The Office of General Counsel's Departmental Enforcement Center has primary responsibility for ensuring that troubled multifamily properties return to compliance. The Departmental Enforcement Center protects the public interest by excluding sanctioned individuals/entities from participating in government programs nationwide. The efforts of the Departmental Enforcement Center improve the physical condition of the FHA insured and assisted Housing stock and reduce the inventory of troubled properties.

In some instances, the Departmental Enforcement Center-obtains significant financial recoveries. Both the Office of Multifamily Housing and the Real Estate Assessment Center refer troubled properties to the Departmental Enforcement Center. The Real Estate Assessment Center assesses the management risk of multifamily projects based on physical and financial factors. Physically troubled projects typically can involve high capital needs backlogs, and deferred or inadequate maintenance. Financially troubled projects can involve mortgage defaults, high vacancy rates, inadequate rent roll, excessive expenses, or fraud in the form of equity skimming.

The Departmental Enforcement Center works closely with the Office of Housing and other HUD program areas to determine appropriate remedies for referrals. Remedies can include the issuance of sanctions such as debarment or suspension and/or the imposition of civil money penalties. The Departmental Enforcement Center working with the Office of Program Enforcement or Office of Regional General Counsel refers some civil cases to the Department of Justice and criminal matters to the Office of Inspector General.



Results, impact, and analysis. For FY 2007, the goal of the Departmental Enforcement Center was to assist the Office of Housing maintain the insured and/or assisted Multifamily housing properties in physically acceptable condition by closing 80 percent of the physical referral cases in the inventory as of October 1, 2006. The goal was exceeded. The Departmental Enforcement Center closed 406 of the 406 physical referral cases in its inventory, for a closure rate of 100 percent. During FY 2006 the closure rate was 96.8 percent. This represents a 3.2 percent increase in the closure rate of last fiscal year.

Data discussion. The Real Estate Management System draws data from the integrated Assessment Subsystem. The Departmental Enforcement Center Management System produces management reports from the data drawn by the Real Estate Management System. No data problems affect the reliability of this indicator. An independent assessment in 2002 showed that the integrated Assessment Subsystem performance indicator data passed four-sigma quality test (6,210 error per million) for validity, completeness, and consistency.

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

Strategic Objectives:

F1 **Reduce barriers to faith-based and community organizations' participation in HUD-sponsored programs.**

F2 **Conduct outreach and provide technical assistance to strengthen the capacity of faith-based and community organizations to attract partners and secure resources.**

F3 **Encourage partnerships between faith-based/community organizations and HUD grantees and subgrantees.**

PERFORMANCE REPORT CARD - GOAL F

	Performance Indicators	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2007 Target	Met	Notes
F1	**Reduce barriers to faith-based and community organizations' participation in HUD-sponsored programs.**							
F1.1	The Center for Faith-Based and Community Initiatives will measure the participation of faith-based and community organizations, through new and past relationships with public-private partners and through the Department's FY 2007 Super Notice of Funding Availability process compared to FY 2006.		$479	$545	$550	Measure	✓	k,o
F2	**Conduct outreach and provide technical assistance to strengthen the capacity of faith-based and community organizations to attract partners and secure resources.**							
F2.1	The Center will conduct comprehensive outreach to faith-based and community organizations by attending and participating in at least 50 conferences and workshops, as well as updating and maintaining a database.		47	106	60	50	✓	
F2.2	In order to ensure that faith-based and community organizations have equal access to HUD and private funding opportunities, the Center for Faith-Based and Community Initiatives will conduct at least 50 resources training sessions across the country that provide participants with approaches to obtaining funding and strategies for developing coalitions.		69	95	60	50	✓	

PERFORMANCE REPORT CARD - GOAL F

	Performance Indicators	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2007 Target	Met	Notes
F3	**Encourage partnerships between faith-based/community organizations and HUD grantees and subgrantees.**							
F3.1	The Center will work with HUD program offices to implement pilot projects to strengthen partnerships between faith-based and community organizations and HUD program offices and traditional grantees.							
	Pilot projects	N/A	1	1	1	1	✓	
	Forums held				18	11	✓	

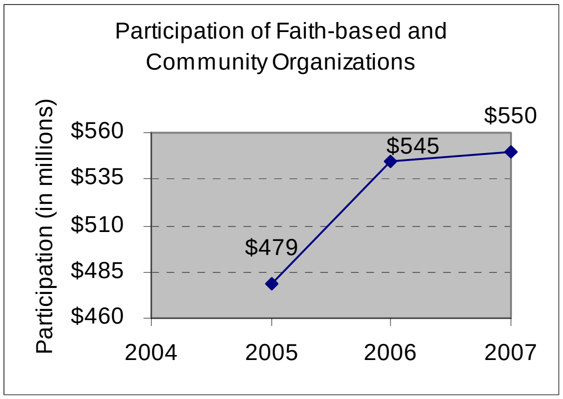
Notes:

a Data not available.
b No performance goal for this fiscal year.
c Tracking indicator.
d Third quarter of calendar year (last quarter of fiscal year; not the entire fiscal year).
e Calendar year beginning during the fiscal year shown.
f Calendar year ending during the fiscal year shown.
g Result too complex to summarize. See indicator.
h Baseline newly established.
i Result is estimated.
j Number is in thousands.
k Number reported in millions.
l Number reported in billions.
m For one year period ending June 30, 2007
n First half of calendar year
o One-year lag in data.

F1 Reduce barriers to faith-based and community organizations' participation in HUD-sponsored programs.

F1.1: The Center for Faith-Based and Community Initiatives will measure the participation of faith-based and community organizations, through new and past relationships with public-private partners and through the Department's FY 2007 Super Notice of Funding Availability process compared to FY 2006.

Background. The Center for Faith-Based and Community Initiatives (CFBI) does not have the authority to disseminate or manage grants. Unlike some other federal agencies, HUD's CFBCI also does not have discretionary funds to distribute to faith-based and community organizations. However, CFBCI does conduct extensive outreach activities to equip faith-based and community organizations with the tools and training to increase their participation in HUD's Super Notice of Funding Availability competitions. This outreach has effectively augmented resources and created workable strategies to increase the number of faith-based and community organizations and the type of organizations participating in the Super Notice of Funding Availability process. HUD compares available fiscal year data against data from past fiscal years in order to check for growth, measure outcomes and identify long-term trends. Data collected in the past has show that faith-based and community organizations accounted for fifteen percent of all grantees and received twenty-four percent of dollars in select competitive funding. In 2004, federal agencies were directed to take steps to ensure that federal policies and programs are fully open to faith-based organizations in a manner that is consistent through with the Equal Treatment Regulations in accordance with the U.S. Constitution and statutory requirements.



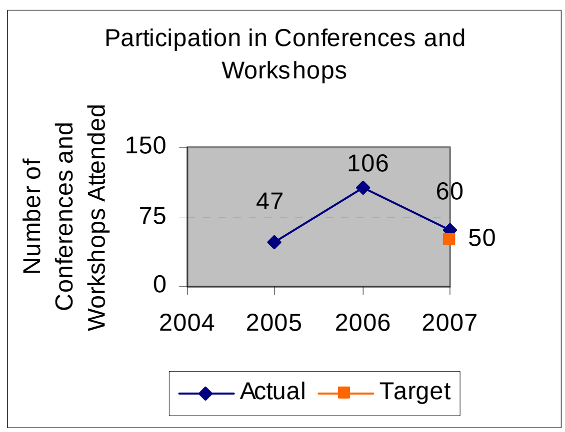
Results, impact, and analysis: Data for the FY 2007 grant awards is unavailable at this time (the FY 2006 Performance and Accountability Report reported on 2005 results). Faith-based and community organizations have secured in competitive funding for FY 2006 approximately $550 million dollars, compared to $545 million in FY 2005 and $479 million in FY 2004. Additionally, the number of grantees has also increased 27 percent from 2004 to 2006. Numbers for novice grantees have increased 72 percent from 2003 to 2005. In 2006 (latest data available), while faith-based organizations accounted for 15 percent of all grantees, they accounted for 24 percent of dollars received in select competitive funding. It is abundantly clear that it is highly beneficial to provide our constituents with increased information and to encourage them to utilize the information and government entities to exercise equal treatment regulations.

Data discussion. Faith-based and community organizations' increased participation in HUD's awards programs is attributable to their increased ability to work independently and navigate effectively through the Super Notice of Funding Availability application process and their understanding of the equal treatment regulation.

F2 Conduct outreach and provide technical assistance to strengthen the capacity of faith-based and community organizations to attract partners and secure resources.

F2.1: The Center will conduct comprehensive outreach to faith-based and community organizations by attending and participating in at least 50 conferences and workshops, as well as updating and maintaining a database.

Background. The Center for Faith-Based and Community Initiatives (CFBCI) has met the challenges of securing resources and educating faith-based and community organizations on government programs available through HUD and our local partners. CFBCI has conducted comprehensive outreach programs through basic and advanced grant writing training sessions entitled "The Art and Science of Grant Writing." Additionally, CFBCI staff provides information through conducting the Unlocking Doors Initiative forums and participating in conferences, panels, speaking engagements, and publicizing and circulating information to enhance coalition and capacity-building in faith-based and community organizations throughout the country. CFBCI also communicates with faith-based and community organizations through the website, publications, emails, and one-on-one consultations via telephone or in person. CFBCI works in cooperation with field liaisons who serve as a point-of-contact for faith-based and community groups in each region. The aforementioned outreach programs offer technical assistance, capacity building techniques, and training to these organizations to support the important contribution they make to the American people and to strengthen the social services network in the United States. CFBCI staff encourages faith-based and community organizations to collaborate with state and local officials, institutions of higher learning, and other public-private organizations to continue their good work and provide even more valuable resources to faith-based and community organizations. CFBCI maintains a database of faith-based and community organizations that touch the lives of thousands of people in urban and rural communities throughout the country.



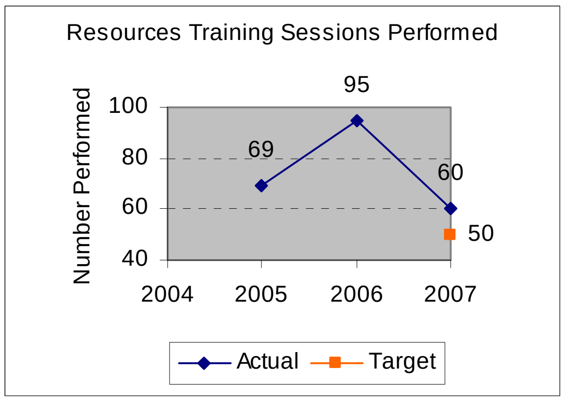
Results, impact, and analysis. CFBCI exceeded its comprehensive outreach goal of fifty events, and conducted and participated on panels in more than sixty outreach sessions. During these sessions, CFBCI and other HUD representatives answered questions, gave directions, and distributed material from the major departments—PIH, CPD, Housing, Fair Housing and Equal Opportunity, Lead Hazard Control, and Policy Development and Research. These efforts took place to increase the knowledge base of faith-based and community organizations. These milestones have created qualifying measures and CFBCI outreach programs have substantially increased grassroots efforts and serves as the catalyst for millions of lives being changed throughout the country.

Data discussion. The Center tracks the participation of all faith based and community initiatives through regular communications with field liaisons, evaluations completed by participants, and tracking the number of conferences attended based on the priorities and requirements of the

Department. The qualitative milestones used for elements of this indicator do not require numerical databases. Assessing performance of some measures may be limited by long term results.

F2.2: In order to ensure that faith-based and community organizations have equal access to HUD and private funding opportunities, the Center for Faith-Based and Community Initiatives will conduct at least 50 resource training sessions across the country that provide participants with approaches to obtaining funding and strategies for developing coalitions.

Background. As more organizations face the stark realities of ever depleting resources within the community, CFBCI continues to mobilize community organizations and encourage them to respond effectively to the many needs of the community through educating these entities on resources available from HUD, other government agencies, foundations and corporate funding streams. During the two-day "Art & Science of Grant Writing" training sessions, a "Certificate of Completion" is issued to every participant at the conclusion of each grant writing training. This certificate is recognized by foundations and smaller funding organizations as documentation of training. CFBCI also holds Unlocking Doors forums throughout the country to reach grassroots organizations and build bridges with state and local officials to identify best practices, increase affordable housing strategies, and identify homeownership opportunities.



Results, impact, and analysis. This year, CFBCI held sixty training sessions, which exceeded the original goals set forth to ensure that faith-based and community organizations have equal access to HUD and private funding opportunities. Analysis of the best practices and lessons learned from the Unlocking Doors Initiative has been shared with Mayors throughout the country. The impact indicates that more than 2,000 new affordable housing opportunities have been made available as a result of the Unlocking Doors Initiative, and over 16,000 people have been trained on HUD and other funding streams. Participants completed registration forms, organizational surveys, and evaluation forms, which identified their organizations in terms of budget, planning strategies, mission, and number of employees. CFBCI tracked the results of the evaluation forms and this process allows for a more accurate analysis of the program, determining the level of performance and impact of the training sessions.

Data discussion. Benchmarks documented by HUD's Center For Faith-Based and Community Initiatives show that more than three hundred and 51 new affordable housing strategies have been developed for single family housing projects and over fifteen hundred new multifamily housing units have been made available in 2006 and 2007. Attendances at all training sessions is documented through registration, sign-in sheets, organizational surveys, and evaluation sheets.

F3 Encourage partnerships between faith-based/community organizations and HUD grantees and subgrantees.

F3.1: The Center will work with HUD program offices to implement pilot projects to strengthen partnerships between faith-based and community organizations and HUD program offices and traditional grantees.

Background. Project I: In Collaboration with the Office of Public and Indian housing, a HOPE IV mentoring pilot project is aimed at encouraging Public Housing Authorities (PHAs) to enlist area faith-based and community organizations to supply mentors for public housing residents to increase their FICA scores, pass GED equivalency test, and move toward self-sufficiency benchmarks and decrease case load for PHA case managers. Three awards were made to PHAs, and the Center for Faith-Based and Community Initiatives and HUD's Office of Public and Indian Housing will analyze the implementation and impact of the grants in 2008. This project allows public housing authorities to compensate faith-based and community organizations on a per capita, fee-for-service basis each time a faith-based and community organization mentor successfully leads a public housing resident toward an agreed upon benchmark. These funds were made available to determine if a mentoring demonstration program assistance model improves the results of self-sufficiency type programs for participating residents.

Project II: Continuing CFBCI's aim to design and identify pilot projects that build organizational capacity in faith-based and community groups and increase their ability to compete with larger, more experienced grantees, CFBCI has expanded the "Unlocking Doors Initiative." This project highlights successful local strategies for involving faith-based and community organizations in affordable housing plans and promoting homeownership. This initiative includes providing training to state and local governments to build upon and improve innovative public private partnerships in designated cities. Through this program CFBCI has worked with Harvard University's Kennedy School of Government and the University of Southern California in conducting research and discussing the impact of affordable housing with mayors at the U. S. Conference of Mayors.

Results, impact, and analysis. Project I: There were three PHAs awarded more than $176,000 each to implement this program. The Housing Authorities that received awards are Danville, Virginia; Chicago, Illinois; and Philadelphia, Pennsylvania. Analysis and results from the three cities awarded HOPE VI mentoring grants will be documented as benchmarks and are reported from the recipients, our Public Housing Authority partners, and their case management staff.

Project II: The Unlocking Doors forums have been held in eighteen U.S. Cities, which include Oakland, California; Nashville, Tennessee; Chicago, Illinois; Miami, Florida; Columbus, Ohio; Raleigh, North Carolina; Detroit, Michigan; Buffalo, New York; Los Angeles, California; Shreveport, Louisiana; Flint, Michigan; Tampa, Florida; Philadelphia, Pennsylvania; Houston, Texas; Richmond, Virginia; Charlotte, North Carolina; and Greenville, South Carolina. Forums were held in each city with key faith-based and community leaders, including city Mayors and or their key staff and HUD FBCO liaisons. These forums/discussions opened doors to the local governments to work more effectively with faith-based and community organizations and provided networking opportunities for faith-based and community organizations to work together, allowing them to open doors to affordable housing for the broader community.

Data discussion. CFBCI measured both Single Family and Multifamily new affordable housing strategies as well as completed new affordable housing construction projects. Since 2005, there were more than 700 newly constructed affordable housing projects generated as a result of the Unlocking Doors Initiative forums. CFBCI continues to maintain a system for communicating and monitoring the HOPE VI demonstration projects through Public and Indian Housing Authorities. Additional accomplishments will be assessed and documented by HUD's Center for Faith-Based and Community Initiatives upcoming data collection report.

Message from the Chief Financial Officer

November 15, 2007

In FY 2007, the Department of Housing and Urban Development continued to make strides towards financial management excellence. The Department's progress is measured by the results and outcomes captured in this annual Performance and Accountability Report. The report tells the story of our successes and challenges in both the financial and program arenas. It serves as the principal publication and report to the Congress and the American people on our program leadership and our stewardship and management of the public funds entrusted to us.

I am pleased to report that for the eighth consecutive year, we have received an unqualified or "clean" opinion on the Department's consolidated financial statements from our independent Office of Inspector General auditors. The audit, however, did identify two new material weaknesses and six significant deficiencies this year. The auditors' reporting of these new issues is partially due to revisions to the Statement of Accounting Standard Number 112 (SAS 112). SAS 112 raised the bar and required agencies to demonstrate that stronger risk management and internal controls were in place. Corrective action plans are being developed to address these new findings and deficiencies, and the Department continues to make progress in addressing prior year findings. This favorable financial audit result affirms our continued commitment to financial and management excellence. Other significant financial management accomplishments in FY 2007 include:

- Received the Certificate of Excellence in Accountability Reporting (CEAR) from the Association of Government Accountants for the Department's FY 2006 Performance and Accountability Report.
- Obtained a score of "Green" on five of nine President's Management Agenda initiatives. Most notably, the Department improved its score from "Red" to "Green" on the Improved Financial Performance initiative. The Department continued to face challenges on the Credit Program Management, Competitive Sourcing, Human Capital, and Performance Improvement initiatives, but action plans are in place and improvement is expected in 2008.
- Implemented FedTraveler, a government-wide travel service. This eGovernment initiative was launched in response to the President's Management Agenda to improve the internal efficiency and effectiveness of the federal government. Its purpose is to realize the cost-savings and increased service associated with a common, automated, and integrated approach to managing the travel function of the federal government's civilian agencies. FedTraveler is projected to reduce the self-booked ticketing fee incurred by HUD by 66 percent, versus the previous agent-assisted ticketing fee.

- Completed HUD's second assessment of the effectiveness of internal controls over financial reporting, in accordance with the new requirements of Appendix A of OMB Circular A-123. This is the equivalent of the Sarbanes-Oxley Act requirements for the private sector. Based on the results of that evaluation, the Secretary was able to report reasonable assurance that the Department's internal controls over financial reporting, as of June 30, 2007, were operating effectively, and no material weaknesses were found in the design or operation of the internal controls over financial reporting. Nevertheless, opportunities for improved controls were identified and corrective actions have been initiated.

- Received the highest rating from the Office of Management and Budget on goals for all nine key federal accounting practices, achieving: 100 percent fund balance with Treasury reconciliation, 100 percent suspense account resolution, 100 percent debt management, 99 percent prompt payment, 99 percent interest management, 96 percent electronic funds transfer, 99 percent individual travel card timeliness, 100 percent central travel card timeliness, and 100 percent purchase card timeliness. These nine green ratings placed HUD among the top performers in the federal government.

- Issued a solicitation for a system integrator/shared service provider (SI/SSP) to allow HUD to achieve a new General Ledger System in FY 2009, as a major step towards a fully integrated financial management system by FY 2013. This effort will align four financial management modernization initiatives to integrate all core financial management functions via a phased implementation. The procurement action is scheduled to be completed in FY 2008.

- Continued the review and clean-up of obligated fund balances associated with terminated programs and expired contracts, as well as re-estimation of active long-term Section 8 project-based contracts, resulting in the deobligation of approximately $2 billion in excess/overestimated funds identified in FY 2007.

HUD is committed to maintaining proper stewardship of the resources entrusted to it by the Congress and the American taxpayer. I want to thank the staff of the Office of the Chief Financial Officer, the FHA and Ginnie Mae Comptroller's Offices, the Office of the Inspector General, and other HUD program and administrative components that are involved in the stewardship of HUD's funds. Their dedication and effort is essential in providing HUD's program management team with the budgetary, accounting, financial management systems, auditing, and performance management services necessary to effectively support HUD's mission and deliver results for the American people.

John W. Cox

John W. Cox

Introduction to the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of HUD, pursuant to the requirements of the Chief Financial Officers Act of 1990 (31 U.S.C. 3515(b)), the Government Management Reform Act of 1994, and OMB Circular A-136, "Financial Reporting Requirements." While the financial statements have been prepared from HUD's books and records in accordance with formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The principal financial statements and notes should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication is that the liabilities reported in the financial statements cannot be liquidated without legislation that provides resources to do so.

The financial statements presented herein are:

The **Consolidated Balance Sheets**, which present as of September 30, 2007 and 2006 those resources owned or managed by HUD which are available to provide future economic benefits (assets); amounts owed by HUD that will require payments from those resources or future resources (liabilities); and residual amounts retained by HUD comprising the difference (net position).

The **Consolidated Statements of Net Cost**, which present the net cost of HUD operations for the years ended September 30, 2007 and 2006. HUD's net cost of operations includes the gross costs incurred by HUD less any exchange revenue earned from HUD activities.

The **Consolidated Statements of Changes in Net Position**, which present the change in HUD's net position resulting from the net cost of HUD operations, budgetary financing sources other than exchange revenues, and other financing sources for the years ended September 30, 2007 and 2006.

The **Combined Statements of Budgetary Resources**, which present the budgetary resources available to HUD during FY 2007 and 2006, the status of these resources at September 30, 2007 and 2006, and the outlay of budgetary resources for the years ended September 30, 2007 and 2006.

The **Notes to the Financial Statements** provide important disclosures and details related to information reported on the statements.

Consolidated Balance Sheet
As of September 30, 2007 and 2006
(Dollars in Millions)

	2007	2006
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 4)	$69,046	$81,395
Investments (Note 5)	31,270	30,426
Accounts Receivable (Net) (Note 6)		
Loans Receivable, Net (Note 7)		
Other Assets (Note 9)	8	26
Total Intragovernmental Assets	$100,324	$111,847
Investments (Note 5)	121	98
Accounts Receivable (Net) (Note 6)	256	363
Credit Program Receivables and Related Foreclosed Property (Note 7)	9,567	10,045
General Property Plant and Equipment (Net) (Note 8)	213	176
Other Assets (Note 9)	593	534
TOTAL ASSETS	$111,074	$123,063
LIABILITIES		
Intragovernmental Liabilities		
Accounts Payable (Note 10)	$5	$0
Debt (Note 11)	5,459	7,249
Other Intragovernmental Liabilities (Note 14)	3,808	2,670
Total Intragovernmental Liabilities	$9,272	$9,919
Accounts Payable (Note 10)	769	757
Loan Guarantees (Note 7)	7,551	3,589
Debt Held by the Public (Note 11)	981	1,252
Federal Employee and Veterans' Benefits (Note 12)	82	80
Loss Reserves (Note 13)	536	534
Other Governmental Liabilities (Note 14)	1,169	1,192
TOTAL LIABILITIES	$20,360	$17,323
CONTINGENCIES (Note 17)		
NET POSITION		
Unexpended Appropriations - Earmarked (Note 18)	($376)	($376)
Unexpended Appropriations	54,871	66,616
Cumulative Results of Operations - Earmarked (Note 18)	13,266	12,504
Cumulative Results of Operations	22,953	26,996
Total Net Position	90,714	105,740
Total Liabilities and Net Position	$111,074	$123,063

The accompanying notes are an integral part of these statements.

Consolidated Statement of Net Cost
For the Period Ended September 2007 and 2006
(Dollars in Millions)

	2007	2006
COSTS:		
Federal Housing Administration		
Gross Cost	$3,890	($380)
Less: Earned Revenue	(1,521)	(1,701)
Net Program Costs	$2,369	($2,081)
Government National Mortgage Association		
Gross Cost	$53	$60
Less: Earned Revenue	(791)	(849)
Net Program Costs	($738)	($789)
Section 8:		
Gross Cost	$24,640	$23,827
Less: Earned Revenue		
Net Program Costs	$24,640	$23,827
Community Development Block Grants:		
Gross Cost	$10,966	$5,093
Less: Earned Revenue		
Net Program Costs	$10,966	$5,093
HOME:		
Gross Cost	$1,902	$1,853
Less: Earned Revenue		
Net Program Costs	$1,902	$1,853
Operating Subsidies:		
Gross Cost	$3,831	$3,600
Less: Earned Revenue		
Net Program Costs	$3,831	$3,600
Low Rent Public Housing Loans and Grants		
Gross Cost	$3,479	$3,566
Less: Earned Revenue	($0)	($0)
Net Program Costs	$3,479	$3,566
Housing for the Elderly and Disabled		
Gross Cost	1,317	$1,279
Less: Earned Revenue	(419)	(515)
Net Program Costs	$898	$764
Other:		
Gross Cost	$3,376	$3,541
Less: Earned Revenue	(21)	(78)
Net Program Costs	$3,355	$3,463
Costs Not Assigned to Programs:	$332	$332
Consolidated:		
Gross Cost	$53,786	$42,771
Less: Earned Revenue	(2,752)	(3,143)
Net Cost of Operations	$51,034	$39,628

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Net Position for the period ending September 2007 and 2006

(Dollars in Millions)

	2007			2006
	EARMARKED FUNDS	ALL OTHER FUNDS	CONSOLIDATED TOTAL	CONSOLIDATED TOTAL
CUMULATIVE RESULTS OF OPERATIONS:				
Beginning of Period	(12,504)	(26,996)	(39,500)	($38,122)
Adjustments:				
Changes in Accounting Principles				
Corrections of Errors		33	33	
Beginning Balances, As Adjusted	(12,504)	(26,963)	(39,467)	($38,122)
BUDGETARY FINANCING SOURCES:				
Other Adjustments		(2)	(2)	
Appropriations Used	(1)	(50,951)	(50,952)	(44,332)
Non-exchange Revenue				
Donations/Forfeitures-Cash & Cash Equivalents				
Transfers In/Out Without Reimbursement		2,419	2,419	1,697
Other		2	2	(3)
Other Financing Sources (non-exchange):				
Donations and Forfeitures of Property				
Transfers In/Out Without Reimbursement		843	843	1,711
Imputed Financing		(97)	(97)	(79)
Other				
Total Financing Sources	(1)	(47,785)	(47,786)	($41,006)
Net Cost of Operations	(761)	51,795	51,034	$39,628
Net Change	(762)	4,010	3,248	($1,378)
CUMULATIVE RESULTS OF OPERATIONS	**(13,266)**	**(22,953)**	**(36,219)**	**($39,500)**
UNEXPENDED APPROPRIATIONS:				
Beginning of Period	376	(66,615)	(66,239)	($53,809)
Adjustments				
Changes in Accounting Principles				
Corrections of Errors		(33)	(33)	
Beginning Balances, As Adjusted	376	(66,648)	(66,272)	($53,809)
BUDGETARY FINANCING SOURCES:				
Appropriations Received	(1)	(40,174)	(40,175)	($59,418)
Appropriations Transfers In/Out		160	160	35
Other Adjustments		842	842	2,620
Appropriations Used	1	50,949	50,950	44,332
Total Budgetary Financing Sources		11,777	11,777	($12,431)
Unexpended Appropriations	**376**	**(54,871)**	**(54,495)**	**($66,240)**
NET POSITION	**($12,890)**	**($77,824)**	**($90,714)**	**($105,740)**

The accompanying notes are an integral part of these statements.

Combined Statement of Budgetary Resources
For the Period Ended September 2007 and 2006
(Dollars in Millions)

	2007		2006	
	Budgetary	NonBudgetary Credit Program Financing Accounts	Budgetary	NonBudgetary Credit Program Financing Accounts
Budgetary Resources:				
Unobligated Balance, Brought Forward	$48,465	$7,158	43,381	$6,006
Recoveries of Prior Year Unpaid Obligations	2,674	125	2,040	6
Budget Authority				
Appropriation	40,181	2	59,438	
Borrowing Authority	17	602	19	887
Contract Authority				
Spending Auth from Offsetting Collections				
Earned				
Collected	4,647	9,131	5,750	11,496
Change in Receivable from Fed Sources	52	42	(52)	(46)
Change in Unfilled Customer Orders				
Advance Received	(29)		(121)	
W/O Advance from Federal Sources	(9)	(2)	7	(5)
Anticipated Rest of Year w/o Advance	0			
Previously Unavailable				
Expenditure Transfers from Trust Funds				
Subtotal Budget Authority	$44,859	$9,775	$65,041	$12,332
Nonexpenditure Transfers, Net	(0)		156	
Temporarily Not Available Per PL				
Permanently not available	(4,268)	(2,315)	(7,905)	(2,186)
Total Budgetary Resources	$91,730	$14,742	$102,713	$16,158
Status of Budgetary Resources:				
Obligations Incurred				
Direct	$48,416	$10,523	54,146	9,000
Reimbursable	329		100	
Subtotal	$48,745	$10,523	$54,246	$9,000
Unobligated Balances				
Apportioned	$5,712	$1,007	11,416	2,146
Exempt from Apportionment	0			
Subtotal	$5,712	$1,007	$11,416	$2,146
Unobligated Balances Not Available	37,273	3,212	37,051	5,012
Total Status of Budgetary Resources	$91,730	$14,742	$102,713	$16,158
Change in Obligated Balance				
Obligated Balance, Net				
Unpaid Obligations, Brought Forward	$72,610	$1,377	69,218	1,263
Less: Uncollected Customer Payments from Federal Sources	(301)	(22)	(346)	(72)
Total Unpaid Obligated Balance, Net	$72,309	$1,355	$68,872	$1,191
Obligations Incurred, Net	48,745	10,523	54,246	9,000
Less: Gross Outlays	(52,875)	(10,433)	(48,816)	(8,881)
Obligated Balance Transferred, Net				
Actual Transfers, Unpaid Obligations				
Actual Transfers, Uncollected Customer Payments from Federal Sources				
Total Unpaid Obligated Balance Transferred, Net				
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(2,674)	(125)	(2,040)	(6)
Change in Uncollected Customer Payments from Federal Sources	(43)	(40)	45	51
Obligated Balance, Net - End of Period				
Unpaid Obligations	65,805	1,342	72,608	1,376
Less: Uncollected Customer Payments from Federal Sources	(344)	(62)	(301)	(21)
Total Obligated Balance, Net - End of Period	$65,461	$1,280	$72,307	$1,355
Net Outlays				
Gross Outlays	52,875	10,433	48,816	8,881
Less Offsetting Collections	(4,618)	(9,131)	(5,629)	(11,496)
Less: Distributed Offsetting Receipts	(2,807)		(717)	
Net Outlays	$45,450	$1,302	$42,470	($2,615)

The accompanying notes are an integral part of these statements.

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Consolidating Balance Sheet
As of September 2006
(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	Home	Operating Subsidies
ASSETS						
Intragovernmental						
Fund Balance with Treasury (Note 4)	$10,568	$4,056	$8,501	$27,678	$5,821	$943
Investments (Note 5)	22,012	8,414				
Other Assets (Note 9)	24		7	8	4	10
Total Intragovernmental Assets	$32,603	$12,471	$8,508	$27,686	$5,825	$953
Investments (Net) (Note 5)	98					
Accounts Receivable (Net) (Note 6)	168	24	164			
Credit Program Receivables and Related Foreclosed Property (Net) (Note 7)	4,283					
General Property Plant and Equipment (Net) (Note 8)		6				
Other Assets (Note 9)	141	391				
TOTAL ASSETS	$37,293	$12,893	$8,672	$27,686	$5,825	$953
LIABILITIES						
Intragovernmental Liabilities						
Accounts Payable (Note 10)				4		
Debt (Note 11)	$6,258					
Other Intragovernmental Liabilities (Note 14)	2,486		$86	$2	1	$2
Total Intragovernmental Liabilities	$8,744		$86	$5	$1	$2
Accounts Payable (Note 10)	396	37	11	43	28	147
Loan Guarantees Liabilities (Note 7)	3,482					
Debt Held by the Public (Note 11)	95					
Federal Employee and Veterans' Benefits (Note 12)			8	7	3	5
Loss Reserves (Note 13)		534				
Other Governmental Liabilities (Note 14)	577	439	9	6	3	6
TOTAL LIABILITIES	$13,294	$1,011	$113	$61	$35	$159
NET POSITION						
Unexpended Appropriations - Earmarked (Note 18)						
Unexpended Appropriations	$594		$8,526	$27,625	$5,790	$793
Cumulative Results of Operations - Earmarked (Note 18)		$11,882				
Cumulative Results of Operations	23,405		33			
Total Net Position	$23,999	$11,882	$8,559	$27,625	$5,790	$793
Total Liabilities and Net Position	$37,293	$12,893	$8,672	$27,686	$5,825	$953

Figures may not add to totals because of rounding.

Consolidating Balance Sheet (continued)
As of September 2006
(Dollars in Millions)

	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
ASSETS					
Intragovernmental					
Fund Balance with Treasury (Note 4)	$8,444	$6,626	$8,758		$81,395
Investments (Note 5)					30,426
Other Assets (Note 9)	17		(44)		26
Total Intragovernmental Assets	$8,461	$6,626	$8,714		$111,847
Investments (Net) (Note 5)					98
Accounts Receivable (Net) (Note 6)	1		6		363
Credit Program Receivables and Related Foreclosed Property (Net) (Note 7)	1	5,561	200		10,045
General Property Plant and Equipment (Net) (Note 8)			169		176
Other Assets (Note 9)			2		534
TOTAL ASSETS	$8,463	$12,187	$9,091		$123,063
LIABILITIES					
Intragovernmental Liabilities					
Accounts Payable (Note 10)			($4)		($0)
Debt (Note 11)	$991				7,249
Other Intragovernmental Liabilities (Note 14)	1	$1	93		2,670
Total Intragovernmental Liabilities	$992	$1	$89		$9,919
Accounts Payable (Note 10)	27	11	57		757
Loan Guarantees Liabilities (Note 7)			108		3,589
Debt Held by the Public (Note 11)	1,156				1,252
Federal Employee and Veterans' Benefits (Note 12)	2	2	55		80
Loss Reserves (Note 13)					534
Other Governmental Liabilities (Note 14)	2	30	121		1,192
TOTAL LIABILITIES	$2,179	$43	$428		$17,323
NET POSITION					
Unexpended Appropriations - Earmarked (Note 18)			(376)		(376)
Unexpended Appropriations	$8,316	$6,555	$8,416		$66,616
Cumulative Results of Operations - Earmarked (Note 18)			$622		$12,504
Cumulative Results of Operations	(2,032)	5,589	1		26,996
Total Net Position	$6,285	$12,144	$8,662		$105,740
Total Liabilities and Net Position	$8,463	$12,187	$9,091		$123,063

Figures may not add to totals because of rounding.

Consolidating Balance Sheet
As of September 2007
(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	Home	Operating Subsidies
ASSETS						
Intragovernmental						
Fund Balance with Treasury	$9,559	$4,433	$5,350	$20,553	$5,700	$1,100
Investments	22,481	8,789				
Accounts Receivable (Net)						
Loans Receivable, Net (Note 7)						
Other Assets	$4		$1	$3	$2	$8
Total Intragovernmental Assets	32,044	13,222	5,351	20,556	5,702	1,108
Investments	121					
Accounts Receivable	119	23	102		2	0
Credit Program Receivables and Related Foreclosed Property	4,738					
General Property Plant and Equipment		17				
Other Assets	$143	$449				
TOTAL ASSETS	37,165	13,711	5,453	20,556	5,705	1,108
LIABILITIES						
Intragovernmental Liabilities						
Accounts Payable	$0		1	$4	0	0
Debt	4,573					
Other Intragovernmental Liabilities	$3,656		$77	$2	$1	$2
Total Intragovernmental Liabilities	8,229		77	6	1	2
Accounts Payable	385	42	4	64	21	189
Loan Guarantees	7,431					
Debt Held by the Public	70					
Federal Employee and Veterans' Benefits			8	7	3	5
Loss Reserves		536				
Other Governmental Liabilities	474	513	9	6	3	6
TOTAL LIABILITIES	$16,590	$1,090	$98	$82	$28	$202
Commitments and Contingencies (Note 17)						
NET POSITION						
Unexpended Appropriations – Earmarked (Note 18)						
Unexpended Appropriations	544		5,355	20,474	5,677	906
Cumulative Results of Operations - Earmarked (Note 18)		$12,620				
Cumulative Results of Operations	20,031		0			
Total Net Position	$20,575	$12,620	$5,355	$20,474	$5,677	$906
Total Liabilities and Net Position	$37,165	$13,711	$5,453	$20,556	$5,705	$1,108

Figures may not add to totals because of rounding.

Consolidating Balance Sheet (continued)
As of September 2007
(Dollars in Millions)

	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
ASSETS					
Intragovernmental					
Fund Balance with Treasury	$7,777	$6,255	$8,318		$69,046
Investments			0		31,270
Accounts Receivable (Net)					
Loans Receivable, Net (Note 7)					
Other Assets (Note 9)	$7	$0	($17)		$8
Total Intragovernmental Assets	7,784	6,255	8,302		100,324
Investments					121
Accounts Receivable	1	0	9		256
Credit Program Receivables and Related Foreclosed Property	1	4,634	193		9,567
General Property Plant and Equipment			196		213
Other Assets			$1		$593
TOTAL ASSETS	7,786	10,889	8,701		111,074
LIABILITIES					
Intragovernmental Liabilities					
Accounts Payable	$0	$0	1		$5
Debt	886	0			5,459
Other Intragovernmental Liabilities	$1	$1	$69		$3,808
Total Intragovernmental Liabilities	888	1	68		9,272
Accounts Payable	22	6	36		769
Loan Guarantees			120		7,551
Debt Held by the Public	911				981
Federal Employee and Veterans' Benefits	2	2	57		82
Loss Reserves					536
Other Governmental Liabilities	2	32	125		1,169
TOTAL LIABILITIES	$1,824	$41	$406		$20,360
Commitments and Contingencies (Note 17)					
NET POSITION					
Unexpended Appropriations – Earmarked (Note 18)			(376)		(376)
Unexpended Appropriations	7,658	6,247	8,010		54,871
Cumulative Results of Operations - Earmarked (Note 18)			$645		$13,266
Cumulative Results of Operations	(1,696)	4,602	16		22,953
Total Net Position	$5,962	$10,849	$8,295		$90,714
Total Liabilities and Net Position	$7,786	$10,889	$8,701		$111,074

Figures may not add to totals because of rounding.

Consolidating Statement of Net Cost
For the Period Ended September 2007 and 2006
(Dollars in Millions)

2007	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	Home	Operating Subsidies
PROGRAM COSTS						
Gross Costs	3,890	53	24,640	10,966	1,902	$3,831
Less: Earned Revenues	(1,521)	(791)				
Net Costs	$2,369	($738)	$24,640	$10,966	$1,902	$3,831
Costs Not Assigned to Programs						
Earned Revenue Not Assigned						
Net Cost of Operations	$2,369	($738)	$24,640	$10,966	$1,902	$3,831

2006	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	Home	Operating Subsidies
PROGRAM COSTS						
Gross Costs	(380)	60	23,827	5,093	1,853	3,600
Less: Earned Revenues	(1,700)	(849)				
Net Costs	($2,081)	($789)	$23,827	$5,093	$1,853	$3,600
Costs Not Assigned to Programs						
Earned Revenue Not Assigned						
Net Cost of Operations	($2,081)	($789)	$23,827	$5,093	$1,853	$3,600

Figures may not add to totals because of rounding.

Consolidating Statement of Net Cost (continued)
For the Period Ended September 2007 and 2006
(Dollars in Millions)

2007	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
PROGRAM COSTS					
Gross Costs	3,479	1,317	3,376		53,454
Less: Earned Revenues	(0)	(419)	(21)		(2,752)
Net Costs	$3,479	$898	$3,355		$50,702
Costs Not Assigned to Programs			$332		$332
Earned Revenue Not Assigned					
Net Cost of Operations	$3,479	$898	$3,687		$51,034

2006	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
PROGRAM COSTS					
Gross Costs	3,566	1,279	3,541		42,439
Less: Earned Revenues	(0)	(515)	(78)		(3,143)
Net Costs	$3,566	$764	$3,463		$39,296
Costs Not Assigned to Programs			$332		$332
Earned Revenue Not Assigned					
Net Cost of Operations	$3,566	$764	$3,795		$39,628

Figures may not add to totals because of rounding.

Consolidating Statement of Changes in Net Position for the period ended September 2006
(Dollars in Millions)

Cumulative Results of Operations

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	Home	Operating Subsidies
Net Position - Beginning of Period						
- Earmarked Funds		(11,093)				
- All Other Funds	(22,546)					
Beginning Balances	(22,546)	(11,093)				
Adjustments						
Changes in Accounting Principles						
- Earmarked Funds						
- All Other Funds						
Corrections of Errors						
- Earmarked Funds						
- All Other Funds						
Beginning Balances, As Adjusted						
- Earmarked Funds		(11,093)				
- All Other Funds	(22,546)					
Total Beginning Balances, As Adjusted	(22,546)	(11,093)				
Budgetary Financing Sources:						
Other Adjustments						
- Earmarked Funds						
- All Other Funds						
Appropriations Used						
- Earmarked Funds						
- All Other Funds	(1,178)		(23,697)	(5,036)	(1,829)	(3,534)
Transfers In/Out Without Reimbursement						
- Earmarked Funds						
- All Other Funds	731					
Other Budgetary Financing Sources						
- Earmarked Funds						
- All Other Funds			(163)	(57)	(24)	(65)
Other Financing Sources:						
Transfers In/Out Without Reimbursement						
- Earmarked Funds						
- All Other Funds	1,692					
Imputed Financing From Costs Absorbed From Others						
- Earmarked Funds						
- All Other Funds	(23)					
Total Financing Sources						
- Earmarked Funds						
- All Other Funds	1,222		(23,860)	(5,093)	(1,853)	(3,600)
Total Financing Sources	1,222		(23,860)	(5,093)	(1,853)	(3,600)
Net Cost of Operations						
- Earmarked Funds		(789)				
- All Other Funds	(2,081)		23,827	5,093	1,853	3,600
Net Change						
- Earmarked Funds		(789)				
- All Other Funds	(858)		(33)			
Total All Funds						
- Earmarked Funds		(11,882)				
- All Other Funds	(23,405)		(33)			
Total All Funds	(23,405)	(11,882)	(33)			

Figures may not add to totals because of rounding.

Consolidating Statement of Changes in Net Position (continued) for the period ended September 2006
(Dollars in Millions)

Cumulative Results of Operations

	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
Net Position - Beginning of Period					
- Earmarked Funds			(590)		(11,683)
- All Other Funds	2,369	(6,286)	24		(26,439)
Beginning Balances	2,369	(6,286)	(566)		(38,122)
Adjustments					
Changes in Accounting Principles					
- Earmarked Funds					
- All Other Funds					
Corrections of Errors					
- Earmarked Funds					
- All Other Funds					
Beginning Balances, As Adjusted					
- Earmarked Funds			(590)		(11,683)
- All Other Funds	2,369	(6,286)	24		(26,439)
Total Beginning Balances, As Adjusted	2,369	(6,286)	(566)		(38,122)
Budgetary Financing Sources:					
Other Adjustments					
- Earmarked Funds					
- All Other Funds					
Appropriations Used					
- Earmarked Funds			(1)		(1)
- All Other Funds	(3,819)	(1,231)	(4,007)		(44,331)
Transfers In/Out Without Reimbursement					
- Earmarked Funds					
- All Other Funds		1,199	(233)		1,697
Other Budgetary Financing Sources					
- Earmarked Funds					
- All Other Funds	(85)	(37)	427		(3)
Other Financing Sources:					
Transfers In/Out Without Reimbursement					
- Earmarked Funds					
- All Other Funds			19		1,711
Imputed Financing From Costs Absorbed From Others					
- Earmarked Funds					
- All Other Funds			(56)		(79)
Total Financing Sources					
- Earmarked Funds			(1)		(1)
- All Other Funds	(3,903)	(68)	(3,851)		(41,005)
Total Financing Sources	(3,903)	(68)	(3,851)		(41,006)
Net Cost of Operations					
- Earmarked Funds			(31)		(820)
- All Other Funds	3,566	764	3,826		40,448
Net Change					
- Earmarked Funds			(32)		(821)
- All Other Funds	(337)	697	(24)		(557)
Total All Funds					
- Earmarked Funds			(622)		(12,504)
- All Other Funds	2,032	(5,589)	(1)		(26,996)
Total All Funds	2,032	(5,589)	(623)		(39,500)

Figures may not add to totals because of rounding.

Consolidating Statement of Changes in Net Position (continued)
for the period ended September 2006
(Dollars in Millions)

Unexpended Appropriations

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	Home	Operating Subsidies
Net Position - Beginning of Period						
- Earmarked Funds						
- All Other Funds	(609)		(10,893)	(11,849)	(5,863)	(764)
Beginning Balances	(609)		(10,893)	(11,849)	(5,863)	(764)
Adjustments						
Changes in Accounting Principles						
- Earmarked Funds						
- All Other Funds						
Corrections of Errors						
- Earmarked Funds						
- All Other Funds						
Beginning Balances, As Adjusted						
- Earmarked Funds						
- All Other Funds	(609)		(10,893)	(11,849)	(5,863)	(764)
Beginning Balances, As Adjusted	(609)		(10,893)	(11,849)	(5,863)	(764)
Budgetary Financing Sources						
Appropriations Received						
- Earmarked Funds						
- All Other Funds	(1,281)		(23,552)	(20,920)	(1,775)	(3,600)
Appropriations Transfers In/Out						
- Earmarked Funds						
- All Other Funds	35			24		
Other Adjustments (Recissions, etc)						
- Earmarked Funds						
- All Other Funds	83		2,222	84	18	37
Appropriations Used						
- Earmarked Funds						
- All Other Funds	1,178		23,697	5,036	1,829	3,534
Total Financing Sources						
- Earmarked Funds						
- All Other Funds	15		2,367	(15,776)	72	(29)
Total Financing Sources	15		2,367	(15,776)	72	(29)
Net Change						
- Earmarked Funds						
- All Other Funds	15		2,367	(15,776)	72	(29)
Total All Funds						
- Earmarked Funds						
- All Other Funds	(594)		(8,526)	(27,625)	(5,791)	(793)
Total All Funds	(594)		(8,526)	(27,625)	(5,791)	(793)

Figures may not add to totals because of rounding.

Consolidating Statement of Changes in Net Position (continued)
for the period ended September 2006
(Dollars in Millions)

Unexpended Appropriations

	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
Net Position - Beginning of Period					
- Earmarked Funds			376		376
- All Other Funds	(8,562)	(6,830)	(8,813)		(54,185)
Beginning Balances	(8,562)	(6,830)	(8,437)		(53,809)
Adjustments					
Changes in Accounting Principles					
- Earmarked Funds					
- All Other Funds					
Corrections of Errors					
- Earmarked Funds					
- All Other Funds					
Beginning Balances, As Adjusted					
- Earmarked Funds			376		376
- All Other Funds	(8,562)	(6,830)	(8,813)		(54,185)
Beginning Balances, As Adjusted	(8,562)	(6,830)	(8,437)		(53,809)
Budgetary Financing Sources					
Appropriations Received					
- Earmarked Funds			(1)		(1)
- All Other Funds	(3,642)	(981)	(3,667)		(59,417)
Appropriations Transfers In/Out					
- Earmarked Funds					
- All Other Funds			(24)		35
Other Adjustments (Recissions, etc)					
- Earmarked Funds					
- All Other Funds	69	26	81		2,620
Appropriations Used					
- Earmarked Funds			1		1
- All Other Funds	3,819	1,231	4,007		44,331
Total Financing Sources					
- Earmarked Funds					
- All Other Funds	246	275	398		(12,431)
Total Financing Sources	246	275	398		(12,431)
Net Change					
- Earmarked Funds					
- All Other Funds	246	275	398		(12,431)
Total All Funds					
- Earmarked Funds			376		376
- All Other Funds	(8,316)	(6,555)	(8,416)		(66,616)
Total All Funds	(8,316)	(6,555)	(8,040)		(66,240)

Figures may not add to totals because of rounding.

Consolidating Statement of Changes in Net Position for the period ended September 2007
(Dollars in Millions)

Cumulative Results of Operations

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	Home	Operating Subsidies
Net Position - Beginning of Period						
- Earmarked Funds		(11,882)				
- All Other Funds	(23,405)		(33)			
Beginning Balances	(23,405)	(11,882)	(33)			
Adjustments						
Changes in Accounting Principles						
- Earmarked Funds						
- All Other Funds						
Corrections of Errors						
- Earmarked Funds						
- All Other Funds			33			
Beginning Balances, As Adjusted						
- Earmarked Funds		(11,882)				
- All Other Funds	(23,405)					
Total Beginning Balances, As Adjusted	(23,405)	(11,882)				
Budgetary Financing Sources:						
Other Adjustments						
- Earmarked Funds						
- All Other Funds	(2)					
Appropriations Used						
- Earmarked Funds						
- All Other Funds	(415)		(24,445)	(10,894)	(1,870)	(3,752)
Transfers In/Out Without Reimbursement						
- Earmarked Funds						
- All Other Funds	1,013					
Other Budgetary Financing Sources						
- Earmarked Funds						
- All Other Funds			(195)	(72)	(32)	(79)
Other Financing Sources:						
Transfers In/Out Without Reimbursement						
- Earmarked Funds						
- All Other Funds	445					
Imputed Financing From Costs Absorbed From Others						
- Earmarked Funds						
- All Other Funds	(37)					
Total Financing Sources						
- Earmarked Funds						
- All Other Funds	1,004		(24,640)	(10,966)	(1,902)	(3,831)
Total Financing Sources	1,004		(24,640)	(10,966)	(1,902)	(3,831)
Net Cost of Operations						
- Earmarked Funds		(738)				
- All Other Funds	2,370		24,640	10,966	1,902	3,831
Net Change						
- Earmarked Funds		(738)				
- All Other Funds	3,374					
Total All Funds						
- Earmarked Funds		(12,620)				
- All Other Funds	(20,031)					
Total All Funds	(20,031)	(12,620)				

Figures may not add to totals because of rounding.

Consolidating Statement of Changes in Net Position (continued) for the period ended September 2007

(Dollars in Millions)

Cumulative Results of Operations

	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
Net Position - Beginning of Period					
- Earmarked Funds			(622)		(12,504)
- All Other Funds	2,032	(5,589)	(1)		(26,996)
Beginning Balances	2,032	(5,589)	(623)		(39,500)
Adjustments					
Changes in Accounting Principles					
- Earmarked Funds					
- All Other Funds					
Corrections of Errors					
- Earmarked Funds					
- All Other Funds					33
Beginning Balances, As Adjusted					
- Earmarked Funds			(622)		(12,504)
- All Other Funds	2,032	(5,589)	(1)		(26,963)
Total Beginning Balances, As Adjusted	2,032	(5,589)	(623)		(39,467)
Budgetary Financing Sources:					
Other Adjustments					
- Earmarked Funds					
- All Other Funds					(2)
Appropriations Used					
- Earmarked Funds			(1)		(1)
- All Other Funds	(3,702)	(1,279)	(4,594)		(50,951)
Transfers In/Out Without Reimbursement					
- Earmarked Funds					
- All Other Funds		1,405	1		2,419
Other Budgetary Financing Sources					
- Earmarked Funds					
- All Other Funds	(113)	(37)	530		2
Other Financing Sources:					
Transfers In/Out Without Reimbursement					
- Earmarked Funds					
- All Other Funds			398		843
Imputed Financing From Costs Absorbed From Others					
- Earmarked Funds					
- All Other Funds			(60)		(97)
Total Financing Sources					
- Earmarked Funds			(1)		(1)
- All Other Funds	(3,815)	89	(3,725)		(47,785)
Total Financing Sources	(3,815)	89	(3,726)		(47,787)
Net Cost of Operations					
- Earmarked Funds			(23)		(761)
- All Other Funds	3,479	898	3,709		51,795
Net Change					
- Earmarked Funds			(23)		(762)
- All Other Funds	(336)	987	(15)		4,009
Total All Funds					
- Earmarked Funds			(646)		(13,266)
- All Other Funds	1,696	(4,602)	(16)		(22,953)
Total All Funds	1,696	(4,602)	(662)		(36,219)

Figures may not add to totals because of rounding.

Consolidating Statement of Changes in Net Position (continued)
for the period ended September 2007
(Dollars in Millions)

Unexpended Appropriations

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	Home	Operating Subsidies
Net Position - Beginning of Period						
- Earmarked Funds						
- All Other Funds	(594)		(8,526)	(27,625)	(5,790)	(793)
Beginning Balances	(594)		(8,526)	(27,625)	(5,790)	(793)
Adjustments						
Changes in Accounting Principles						
- Earmarked Funds						
- All Other Funds						
Corrections of Errors						
- Earmarked Funds						
- All Other Funds			(33)			
Beginning Balances, As Adjusted						
- Earmarked Funds						
- All Other Funds	(594)		(8,559)	(27,625)	(5,790)	(793)
Beginning Balances, As Adjusted	(594)		(8,559)	(27,625)	(5,790)	(793)
Budgetary Financing Sources						
Appropriations Received						
- Earmarked Funds						
- All Other Funds	(1,252)		(21,903)	(3,772)	(1,757)	(3,864)
Appropriations Transfers In/Out						
- Earmarked Funds						
- All Other Funds	769		7	2	1	
Other Adjustments (Recissions, etc)						
- Earmarked Funds						
- All Other Funds	119		655	27		
Appropriations Used						
- Earmarked Funds						
- All Other Funds	415		24,444	10,893	1,870	3,752
Total Financing Sources						
- Earmarked Funds						
- All Other Funds	51		3,203	7,150	114	(112)
Total Financing Sources	51		3,203	7,150	114	(112)
Net Change						
- Earmarked Funds						
- All Other Funds	51		3,203	7,150	114	(112)
Total All Funds						
- Earmarked Funds						
- All Other Funds	(543)		(5,356)	(20,475)	(5,676)	(905)
Total All Funds	(543)		(5,356)	(20,475)	(5,676)	(905)

Figures may not add to totals because of rounding.

Consolidating Statement of Changes in Net Position (continued)
for the period ended September 2007
(Dollars in Millions)

Unexpended Appropriations

	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
Net Position - Beginning of Period					
- Earmarked Funds			376		376
- All Other Funds	(8,316)	(6,555)	(8,416)		(66,615)
Beginning Balances	(8,316)	(6,555)	(8,040)		(66,239)
Adjustments					
Changes in Accounting Principles					
- Earmarked Funds					
- All Other Funds					
Corrections of Errors					
- Earmarked Funds					
- All Other Funds					(33)
Beginning Balances, As Adjusted					
- Earmarked Funds			376		376
- All Other Funds	(8,316)	(6,555)	(8,416)		(66,648)
Beginning Balances, As Adjusted	(8,316)	(6,555)	(8,040)		(66,272)
Budgetary Financing Sources					
Appropriations Received					
- Earmarked Funds			(1)		(1)
- All Other Funds	(3,061)	(971)	(3,594)		(40,174)
Appropriations Transfers In/Out					
- Earmarked Funds					
- All Other Funds	11	1	(631)		160
Other Adjustments (Recissions, etc)					
- Earmarked Funds					
- All Other Funds	6		35		842
Appropriations Used					
- Earmarked Funds			1		1
- All Other Funds	3,702	1,279	4,594		50,949
Total Financing Sources					
- Earmarked Funds					
- All Other Funds	658	309	404		11,777
Total Financing Sources	658	309	404		11,777
Net Change					
- Earmarked Funds					
- All Other Funds	658	309	404		11,777
Total All Funds					
- Earmarked Funds			376		376
- All Other Funds	(7,658)	(6,246)	(8,012)		(54,871)
Total All Funds	(7,658)	(6,246)	(7,636)		(54,495)

Figures may not add to totals because of rounding.

Combining Statement of Budgetary Resources
For the Period Ended September 2006
(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	Home	Operating Subsidies	Public and Indian Housing Loans & Grants	Housing for the Elderly and Disabled
Budgetary Resources:								
Unobligated Balance, Brought Forward	$23,602	$11,579	$2,111	$1,218	$318	$2	$401	$1,337
Recoveries of Prior Year Unpaid Obligations	97		1,156	32	2	0	20	42
Budget Authority								
Appropriation	1,281	11	23,552	20,920	1,775	3,600	3,642	981
Borrowing Authority	9						10	
Contract Authority								
Spending Authority from Offsetting Collections								
Earned								
Collected	2,636	722					88	1,516
Change in Receivable from Fed Sources	(55)	3						
Change in Unfilled Customer Orders								
Advanced Received								
W/O Advance from Federal Sources								
Anticipated for Rest of Year w/o Advance								
Previously Unavailable								
Expenditure Transfers from Trust Funds								
Subtotal	$3,871	$736	$23,552	$20,920	$1,775	$3,600	$3,740	$2,497
Non Expenditure Transters, Net		156		(24)				
Temporarily Not Available Per PL								
Permanently not available	(151)		(4,720)	(83)	(18)	(36)	(724)	(1,464)
Total Budgetary Resources	$27,418	$12,471	$22,099	$22,063	$2,077	$3,566	$3,436	$2,413
Status of Budgetary Resources:								
Obligations Incurred								
Direct	5,028		19,857	15,798	1,807	3,564	3,021	1,172
Reimbursable		100						
Subtotal	$5,028	$100	$19,857	$15,798	$1,807	$3,564	$3,021	$1,172
Unobligated Balances								
Apportioned	161		1,087	6,237	268	1	405	1,157
Exempt from Apportionment								
Subtotal	$161	$0	$1,087	$6,237	$268	$1	$405	$1,157
Unobligated Balances Not Available	22,229	12,371	1,156	28	2	1	11	84
Total Status of Budgetary Resources	$27,418	$12,471	$22,099	$22,063	$2,077	$3,566	$3,436	$2,413

Figures may not add to totals because of rounding.

Combining Statement of Budgetary Resources (continued)
For the Period Ended September 2006
(Dollars in Millions)

	Eliminations	All Other	4th Qtr Budgetary Total	Federal Housing Administration Non Budgetary	Other NonBudgetary Credit Program Accounts	4th Quarter NonBudgetary Credit Program Financing Accounts	Total
Budgetary Resources:							
Unobligated Balance, Brought Forward		$2,812	$43,381	$5,891	$115	$6,006	$49,387
Recoveries of Prior Year Unpaid Obligations		692	2,040	6		6	2,046
Budget Authority							
Appropriation		3,676	59,438				59,438
Borrowing Authority			19	887		887	906
Contract Authority							
Spending Authority from Offsetting Collections							
Earned							
Collected		788	5,750	11,470	25	11,496	17,245
Change in Receivable from Fed Sources			(52)	(46)		(46)	(98)
Change in Unfilled Customer Orders							
Advanced Received		(121)	(121)				(121)
W/O Advance from Federal Sources		7	7		(5)	(5)	2
Anticipated for Rest of Year w/o Advance							
Previously Unavailable							
Expenditure Transfers from Trust Funds							
Subtotal		$4,350	$65,041	$12,312	$21	$12,332	$77,373
Non Expenditure Transters, Net		24	156				156
Temporarily Not Available Per PL							
Permanently not available		(709)	(7,905)	(2,187)		(2,186)	(10,091)
Total Budgetary Resources		$7,169	$102,713	$16,023	$136	$16,158	$118,871
Status of Budgetary Resources:							
Obligations Incurred							
Direct		3,901	54,146	8,991	10	9,000	63,146
Reimbursable			100				100
Subtotal		$3,901	$54,246	$8,991	$10	$9,000	$63,246
Unobligated Balances							
Apportioned		2,100	11,416	2,131	14	2,146	13,562
Exempt from Apportionment							
Subtotal		$2,100	$11,416	$2,131	$14	$2,146	$13,562
Unobligated Balances Not Available		1,168	37,051	4,900	112	5,012	42,063
Total Status of Budgetary Resources		$7,169	$102,713	$16,023	$136	$16,158	$118,871

Figures may not add to totals because of rounding.

Combining Statement of Budgetary Resources (continued)
For the Period Ended September 2006
(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	Home	Operating Subsidies	Public and Indian Housing Loans & Grants	Housing for the Elderly and Disabled
Change in Obligated Balance								
Obligated Balance, Net								
Unpaid Obligations, Brought Forward	$1,067	$121	$21,819	$10,659	$5,557	$872	$10,421	$5,530
Less: Uncollected Customer Payments from Federal Sources	(261)	(78)						
Total Unpaid Obligated Balance, Net	$806	$43	$21,819	$10,659	$5,557	$872	$10,421	$5,530
Obligations Incurred, Net	5,028	100	19,857	15,798	1,807	3,564	3,021	1,172
Less: Gross Outlays	(5,018)	(111)	(23,534)	(5,012)	(1,812)	(3,496)	(3,812)	(1,275)
Obligated Balance Transferred, Net								
Actual Transfers, Unpaid Obligations								
Actual Transfers, Uncollected Customer Payments from Federal Sources								
Total Unpaid Obligated Balance Transferred, Net								
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(97)		(1,156)	(32)	(2)		(20)	(42)
Change in Uncollected Customer Payments from Federal Sources	55	(3)						
Obligated Balance, Net - End of Period								
Unpaid Obligations	980	109	16,986	21,413	5,550	940	9,610	5,385
Less: Uncollected Customer Payments from Federal Sources	(207)	(80)						
Total Obligated Balance, Net - End of Period	$774	$29	$16,986	$21,413	$5,550	$940	$9,610	$5,385
Net Outlays								
Gross Outlays	5,018	111	23,534	5,012	1,812	3,496	3,812	1,275
Less Offsetting Collections	(2,636)	(722)					(88)	(1,516)
Less: Distributed Offsetting Receipts	(677)		(12)					
Net Outlays	$1,706	($611)	$23,521	$5,012	$1,812	$3,496	$3,724	($241)

Figures may not add to totals because of rounding.

Combining Statement of Budgetary Resources (continued)
For the Period Ended September 2006
(Dollars in Millions)

	Eliminations	All Other	4th Qtr Budgetary Total	Federal Housing Administration Non Budgetary	Other NonBudgetary Credit Program Accounts	4th Quarter NonBudgetary Credit Program Financing Accounts	Total
Change in Obligated Balance							
Obligated Balance, Net							
Unpaid Obligations, Brought Forward		$13,172	$69,218	$1,263		$1,263	$70,481
Less: Uncollected Customer Payments from Federal Sources		(7)	(346)	(52)	(20)	(72)	(418)
Total Unpaid Obligated Balance, Net		$13,165	$68,872	$1,211	($20)	$1,191	$70,063
Obligations Incurred, Net		3,901	54,246	8,991	10	9,000	63,246
Less: Gross Outlays		(4,747)	(48,816)	(8,871)	(10)	(8,881)	(57,696)
Obligated Balance Transferred, Net							
Actual Transfers, Unpaid Obligations							
Actual Transfers, Uncollected Customer Payments from Federal Sources							
Total Unpaid Obligated Balance Transferred, Net							
Less: Recoveries of Prior Year Unpaid Obligations, Actual		(692)	(2,040)	(6)		(6)	(2,046)
Change in Uncollected Customer Payments from Federal Sources		(7)	45	46	5	51	95
Obligated Balance, Net - End of Period							
Unpaid Obligations		11,634	72,608	1,376		1,376	73,985
Less: Uncollected Customer Payments from Federal Sources		(14)	(301)	(5)	(16)	(21)	(323)
Total Obligated Balance, Net - End of Period		$11,620	$72,307	$1,370	($16)	$1,355	$73,662
Net Outlays							
Gross Outlays		4,747	48,816	8,871	10	8,881	57,696
Less Offsetting Collections		(667)	(5,629)	(11,470)	(25)	(11,496)	(17,124)
Less: Distributed Offsetting Receipts		(28)	(717)				(717)
Net Outlays		$4,052	$42,470	($2,599)	($16)	($2,615)	$39,855

Figures may not add to totals because of rounding.

Combining Statement of Budgetary Resources
For the Period Ended September 2007
(Dollars in Millions)
Restated

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	Home	Operating Subsidies	Public and Indian Housing Loans & Grants	Housing for the Elderly and Disabled
Budgetary Resources:								
Unobligated Balance, Brought Forward	$22,390	$12,368	$2,242	$6,265	$270	$2	$416	$1,241
Recoveries of Prior Year Unpaid Obligations	89		2,065	24	6	1	22	24
Budget Authority								
Appropriation	1,252		21,903	3,772	1,757	3,864	3,061	971
Borrowing Authority	15						2	
Contract Authority								
Spending Authority from Offsetting Collections								
Earned								
Collected	2,057	1,060				2	94	1,348
Change in Receivable from Fed Sources	56	(4)						
Change in Unfilled Customer Orders								
Advanced Received								
W/O Advance from Federal Sources	(0)							
Anticipated for Rest of Year w/o Advance								0
Previously Unavailable								
Expenditure Transfers from Trust Funds								
Subtotal	$3,380	$1,056	$21,903	$3,772	$1,757	$3,866	$3,156	$2,319
Non Expenditure Transters, Net	(609)		(7)	(2)	(1)		(11)	(1)
Temporarily Not Available Per PL								
Permanently not available	(291)		(1,464)	(28)	(0)		(107)	(1,405)
Total Budgetary Resources	$24,959	$13,425	$24,739	$10,032	$2,032	$3,869	$3,476	$2,178
Status of Budgetary Resources:								
Obligations Incurred								
Direct	2,116		23,537	9,246	1,711	3,865	3,252	1,000
Reimbursable		329						
Subtotal	$2,116	$329	$23,537	$9,246	$1,711	$3,865	$3,252	$1,000
Unobligated Balances								
Apportioned	187		943	766	317	0	206	1,052
Exempt from Apportionment		0						
Subtotal	$187	$0	$943	$766	$317	$0	$206	$1,052
Unobligated Balances Not Available	22,656	13,095	259	20	5	4	18	126
Total Status of Budgetary Resources	$24,959	$13,425	$24,739	$10,032	$2,032	$3,869	$3,476	$2,178

Figures may not add to totals because of rounding.

Combining Statement of Budgetary Resources (continued)
For the Period Ended September 2007
(Dollars in Millions)
Restated

	Eliminations	All Other	4th Qtr Budgetary Total	Federal Housing Administration Non Budgetary	Other NonBudgetary Credit Program Accounts	4th Quarter NonBudgetary Credit Program Financing Accounts	Total
Budgetary Resources:							
Unobligated Balance, Brought Forward		$3,270	$48,465	$7,032	$126	$7,158	$55,623
Recoveries of Prior Year Unpaid Obligations		442	2,674	125		125	2,798
Budget Authority							
Appropriation		3,601	40,181	2		2	40,183
Borrowing Authority			17	602		602	619
Contract Authority							
Spending Authority from Offsetting Collections							
Earned							
Collected		86	4,647	9,104	28	9,131	13,778
Change in Receivable from Fed Sources		0	52	42		42	94
Change in Unfilled Customer Orders							
Advanced Received		(29)	(29)				(29)
W/O Advance from Federal Sources		(9)	(9)	(4)	2	(2)	(12)
Anticipated for Rest of Year w/o Advance		0	0				0
Previously Unavailable							
Expenditure Transfers from Trust Funds							
Subtotal		$3,649	$44,859	$9,745	$30	$9,775	$54,634
Non Expenditure Transters, Net		631	(0)				(0)
Temporarily Not Available Per PL							
Permanently not available		(972)	(4,268)	(2,315)		(2,315)	(6,583)
Total Budgetary Resources		$7,020	$91,730	$14,586	$156	$14,742	$106,472
Status of Budgetary Resources:							
Obligations Incurred							
Direct		3,688	48,416	10,510	14	10,523	58,938
Reimbursable			329				329
Subtotal		$3,688	$48,745	$10,510	$14	$10,523	$59,268
Unobligated Balances							
Apportioned		2,242	5,712	993	14	1,007	6,720
Exempt from Apportionment			0				0
Subtotal		$2,242	$5,712	$993	$14	$1,007	$6,720
Unobligated Balances Not Available		1,090	37,273	3,084	128	3,212	40,485
Total Status of Budgetary Resources		$7,020	$91,730	$14,586	$156	$14,742	$106,472

Figures may not add to totals because of rounding.

Combining Statement of Budgetary Resources (continued)
For the Period Ended September 2007
(Dollars in Millions)
Restated

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	Home	Operating Subsidies	Public and Indian Housing Loans & Grants	Housing for the Elderly and Disabled
Change in Obligated Balance								
Obligated Balance, Net								
Unpaid Obligations, Brought Forward	$980	$112	$16,986	$21,413	$5,550	$940	$9,610	$5,385
Less: Uncollected Customer Payments from Federal Sources	(207)	(80)						
Total Unpaid Obligated Balance, Net	$774	$32	$16,986	$21,413	$5,550	$940	$9,610	$5,385
Obligations Incurred, Net	2,116	329	23,537	9,246	1,711	3,865	3,252	1,000
Less: Gross Outlays	(2,053)	(313)	(24,392)	(10,867)	(1,876)	(3,708)	(3,711)	(1,284)
Obligated Balance Transferred, Net								
Actual Transfers, Unpaid Obligations								
Actual Transfers, Uncollected Customer Payments from Federal Sources								
Total Unpaid Obligated Balance Transferred, Net								
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(89)		(2,065)	(24)	(6)	(1)	(22)	(24)
Change in Uncollected Customer Payments from Federal Sources	(56)	4						
Obligated Balance, Net - End of Period								
Unpaid Obligations	954	129	14,067	19,768	5,379	1,096	9,129	5,076
Less: Uncollected Customer Payments from Federal Sources	(263)	(77)						
Total Obligated Balance, Net - End of Period	$692	$52	$14,067	$19,768	$5,379	$1,096	$9,129	$5,076
Net Outlays								
Gross Outlays	2,053	313	24,392	10,867	1,876	3,708	3,711	1,284
Less Offsetting Collections	(2,057)	(1,060)				(2)	(94)	(1,348)
Less: Distributed Offsetting Receipts	(2,759)		(13)					
Net Outlays	($2,763)	($747)	$24,379	$10,867	$1,876	$3,706	$3,617	($64)

Figures may not add to totals because of rounding.

Combining Statement of Budgetary Resources (continued)
For the Period Ended September 2007
(Dollars in Millions)
Restated

	Eliminations	All Other	4th Qtr Budgetary Total	Federal Housing Administration Non Budgetary	Other NonBudgetary Credit Program Accounts	4th Quarter NonBudgetary Credit Program Financing Accounts	Total
Change in Obligated Balance							
Obligated Balance, Net							
Unpaid Obligations, Brought Forward		$11,633	$72,610	$1,377		$1,377	$73,987
Less: Uncollected Customer Payments from Federal Sources		(14)	(301)	(6)	(16)	(22)	(323)
Total Unpaid Obligated Balance, Net		$11,619	$72,309	$1,370	($16)	$1,355	$73,664
Obligations Incurred, Net		3,688	48,745	10,510	14	10,523	59,268
Less: Gross Outlays		(4,672)	(52,875)	(10,420)	(14)	(10,433)	(63,309)
Obligated Balance Transferred, Net							
Actual Transfers, Unpaid Obligations							
Actual Transfers, Uncollected Customer Payments from Federal Sources							
Total Unpaid Obligated Balance Transferred, Net							
Less: Recoveries of Prior Year Unpaid Obligations, Actual		(442)	(2,674)	(125)		(125)	(2,798)
Change in Uncollected Customer Payments from Federal Sources		9	(43)	(38)	(2)	(40)	(83)
Obligated Balance, Net - End of Period							
Unpaid Obligations		10,207	65,805	1,342		1,342	67,147
Less: Uncollected Customer Payments from Federal Sources		(5)	(344)	(44)	(18)	(62)	(406)
Total Obligated Balance, Net - End of Period		$10,202	$65,461	$1,298	($18)	$1,280	$66,742
Net Outlays							
Gross Outlays		4,672	52,875	10,420	14	10,433	63,309
Less Offsetting Collections		(57)	(4,618)	(9,104)	(28)	(9,131)	(13,749)
Less: Distributed Offsetting Receipts		(36)	(2,807)				(2,808)
Net Outlays		$4,579	$45,450	$1,316	($14)	$1,302	$46,751

Figures may not add to totals because of rounding.

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Notes to Financial Statements

September 30, 2007 and 2006

NOTE 1 - ENTITY AND MISSION

The U.S. Department of Housing and Urban Development (HUD) was created in 1965 to (1) provide housing subsidies for low and moderate income families, (2) provide grants to states and communities for community development activities, (3) provide direct loans and capital advances for construction and rehabilitation of housing projects for the elderly and persons with disabilities, and (4) promote and enforce fair housing and equal housing opportunity. In addition, HUD insures mortgages for single family and multifamily dwellings; insures loans for home improvements and manufactured homes; and facilitates financing for the purchase or refinancing of millions of American homes.

HUD's major programs are as follows:

The **Federal Housing Administration** (FHA) was established under the National Housing Act of 1934 and became a wholly owned government corporation in 1948 subject to the Government Corporation Control Act, as amended. While FHA was established as a separate Federal entity, it was subsequently merged into HUD in 1965. FHA administers active mortgage insurance programs which are designed to make mortgage financing more accessible to the home-buying public and thereby to develop affordable housing. FHA insures private lenders against loss on mortgages which finance single family homes, multifamily projects, health care facilities, property improvements, and manufactured homes.

The **Government National Mortgage Association** (Ginnie Mae) was created in 1968 as a wholly owned Government corporation within HUD to administer mortgage support programs that could not be carried out in the private market. Ginnie Mae guarantees the timely payment of principal and interest on mortgage-backed securities issued by approved private mortgage institutions and backed by pools of mortgages insured or guaranteed by FHA, the Rural Housing Service (RHS), the Department of Veterans Affairs (VA) and the HUD Office of Public and Indian Housing (PIH).

The **Section 8 Rental Assistance** programs assist low- and very low-income families in obtaining decent and safe rental housing. HUD makes up the difference between what a low- and very low-income family can afford and the approved rent for an adequate housing unit with the Housing Choice Voucher (HCV) Program funding cycle that started January 1, 2005 and ended December 31, 2005. As of January 1, 2005, Congress changed the basis of the program funding to PHAs from a “unit-based” process where program variables affected the annual Federal funding amount to a “budget-based” process where annual Federal funding is a fixed amount. Under the budget-based process, PHAs draw the program funds allocated to them on a monthly basis, i.e., one twelve of the annual allocation.

Operating Subsidies are provided to PHAs and Tribally Designated Housing Entities (TDHEs) to help finance the operations and maintenance costs of their housing projects.

The **Community Development Block Grant** (CDBG) programs provide funds for metropolitan cities, urban counties, and other communities to use for neighborhood revitalization, economic development, and improved community facilities and services. The United States Congress appropriated $2 billion in FY 2002 and $783 million in emergency supplemental appropriations in FY 2001 for "Community Development Fund" for emergency expenses to respond to the September 11, 2001 terrorist attacks on the United States. Of the amounts appropriated, $6,296 million and $228 million were expensed as of September 30, 2007 and 2006, respectively. Any remaining un-obligated balances shall remain available until expended.

The **Low Rent Public Housing Grants** program provides grants to PHAs and TDHEs for construction and rehabilitation of low-rent housing. This program is a continuation of the Low Rent Public Housing Loan program which pays principal and interest on long-term loans made to PHAs and TDHEs for construction and rehabilitation of low-rent housing.

The **Section 202/811 Supportive Housing for the Elderly and Persons with Disabilities** programs, prior to fiscal 1992, provided 40 year loans to nonprofit organizations sponsoring rental housing for the elderly or disabled. During fiscal 1992, the program was converted to a grant program. The grant program provides capital for long-term supportive housing for the elderly (Section 202) and disabled (Section 811).

The **Home Investments Partnerships** program provides grants to States, local Governments, and Indian tribes to implement local housing strategies designed to increase home ownership and affordable housing opportunities for low- and very low-income families.

Other Programs not included above consist of other smaller programs which provide grant, subsidy funding, and direct loans to support other HUD objectives such as fair housing and equal opportunity, energy conservation, assistance for the homeless, rehabilitation of housing units, removal of lead hazards, and home ownership. These programs comprise approximately 7.83 percent of HUD's consolidated assets and 7.59 percent of HUD's consolidated revenues and financing sources for fiscal 2007 and 7.4 percent of HUD's consolidated assets and 6.3 percent of HUD's consolidated revenues and financing sources for fiscal 2006.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Consolidation

The financial statements include all funds and programs for which HUD is responsible. All significant intra-fund balances and transactions have been eliminated in consolidation. Transfer appropriations are consolidated into the financial statements based on an evaluation of their relationship with HUD.

B. Basis of Accounting

The financial statements include the accounts and transactions of the Office of Fair Housing and Equal Opportunity (OFHEO), Ginnie Mae, FHA, and HUD's Grant, Subsidy and Loan programs.

The financial statements are presented in accordance with the Office of Management and Budget (OMB) Circular No. A-136, Financial Reporting Requirements and in conformance with the Federal Accounting Standards Advisory Board's (FASAB) Statements of Federal Financial Accounting Standards (SFFAS).

The financial statements are presented on the accrual basis of accounting. Under this method, HUD recognizes revenues when earned, and expenses when a liability is incurred, without regard to receipt or payment of cash. Generally, procedures for HUD's major grant and subsidy programs require recipients to request periodic disbursement concurrent with incurring eligible costs.

The department's disbursement policy permits grantees/recipients to request funds to meet immediate cash needs to reimburse themselves for eligible incurred expenses and eligible expenses expected to be received and paid within three days or as subsidies are payable. HUD's disbursement of funds for these purposes are not considered advance payments, but are viewed as good cash management between the department and the grantees. In the event it is determined that the grantee/recipient did not disburse the funds within the three day time frame, interest earned must be returned to HUD and deposited into one of Treasury's miscellaneous receipt accounts.

C. Use of Estimates

The preparation of the principal financial statements in conformity with Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Amounts reported for net loans receivable and related foreclosed property and the loan guarantee liability represent the Department's best estimates based on pertinent information available.

To estimate the allowance for subsidy (AFS) associated with loans receivable and related to foreclosed property and the Liability for Loan Guarantees (LLG), the Department uses cash flow model assumptions associated with loan guarantee cases subject to the Federal Credit Reform Act of 1990 (FCRA), as described in Note 7, to estimate the cash flows associated with future loan performance. To make reasonable projections of future loan performance, the Department develops assumptions based on historical data, current and forecasted program and economic assumptions.

Certain programs have higher risks due to increased chances of fraudulent activities perpetrated against the Department. The Department accounts for these risks through the assumptions used in the liabilities for loan guarantee estimates. HUD develops the assumptions based on historical performance and management's judgments about future loan performance.

D. Credit Reform Accounting

The primary purpose of the Federal Credit Reform Act of 1990, which became effective on October 1, 1991, is to more accurately measure the cost of Federal credit programs and to place the cost of such credit programs on a basis equivalent with other Federal spending. OMB Circular A-11, Part 5, Federal Credit Programs defines Loan Guarantee as any guarantee, insurance or other pledge with respect to the payment of all or a part of the principal or interest on any debt obligation of a non-Federal borrower (Issuer) to a non-Federal lender (Investor). FHA practices Credit Reform accounting. In the opinion of Ginnie Mae management, and HUD's General Counsel, the Federal Credit Reform Act does not apply to Ginnie Mae. Nevertheless, in consultation with the OMB, Ginnie Mae has adopted certain credit reform practices.

The FCRA establishes the use of the program, financing, general fund receipt and capital reserve accounts for loan guarantees committed and direct loans obligated after September 30, 1991

(Credit Reform). It also establishes the liquidating account for activity relating to any loan guarantees committed and direct loans obligated before October 1, 1991 (pre-Credit Reform). These accounts are classified as either budgetary or non-budgetary in the Combined Statements of Budgetary Resources. The budgetary accounts include the program, capital reserve and liquidating accounts. The non-budgetary accounts consist of the credit reform financing accounts.

The program account is a budget account that receives and obligates appropriations to cover the subsidy cost of a direct loan or loan guarantee and disburses the subsidy cost to the financing account. The program account also receives appropriations for administrative expenses. The financing account is a non-budgetary account that records all of the cash flows resulting from Credit Reform direct loans or loan guarantees. It disburses loans, collects repayments and fees, makes claim payments, holds balances, borrows from U.S. Treasury, earns or pays interest, and receives the subsidy cost payment from the program account.

The general fund receipt account is a budget account used for the receipt of amounts paid from the financing account when there is a negative subsidy from the original estimate or a downward re-estimate. In most cases, the receipt account is a general fund receipt account and amounts are not earmarked for the credit program. They are available for appropriations only in the sense that all general fund receipts are available for appropriations. Any assets in this account are non-entity assets and are offset by intragovernmental liabilities. At the beginning of the following fiscal year, the fund balance in the general fund receipt account is transferred to U.S. Treasury general fund. The FHA general fund receipt account of the General Insurance (GI) and Special Risk Insurance (SRI) funds are in this category.

In order to resolve the different requirements between the FCRA and the National Affordable Housing Act of 1990 (NAHA), OMB instructed FHA to create the capital reserve account to retain the Mutual Mortgage Insurance/Cooperative Management Housing Insurance (MMI/CMHI) negative subsidy and subsequent downward re-estimates. Specifically, the NAHA required that FHA's MMI fund achieve a Capital Ratio of 2.0 percent by fiscal year 2000. The Capital Ratio is defined as the ratio of economic net worth (current cash plus the present value of all future net cash flows) of the MMI fund to unamortized insurance in force (the unpaid balance of insured mortgages). Therefore, to ensure that the calculated Capital Ratio reflects the actual strength of the MMI fund, the resources of the capital reserve account, which are considered FHA assets, are included in the calculation of the MMI fund's economic net worth. At the end of fiscal year 1995, FHA met and has since maintained the Capital Ratio requirement. FHA's actuary estimates the September 30, 2007, Capital Ratio at 6.40 percent. The fiscal year 2006 estimated Capital Ratio was 6.82 percent.

The liquidating account is a budget account that records all cash flows to and from FHA resulting from pre-Credit Reform direct loans or loan guarantees. Liquidating account collections in any year are available only for obligations incurred during that year or to repay debt. Unobligated balances remaining in the GI and SRI liquidating funds at year-end are transferred to the U.S. Treasury's General Fund. Consequently, in the event that resources in the GI/SRI liquidating account are otherwise insufficient to cover the payments for obligations or commitments, the FCRA provides the GI/SRI liquidating account with permanent indefinite authority to cover any resource shortages.

E. Operating Revenue and Financing Sources

HUD finances operations principally through appropriations, collection of premiums and fees on its FHA and Ginnie Mae programs, and interest income on its mortgage notes, loans, and investments portfolio.

Appropriations for Grant and Subsidy Programs

HUD receives both annual and multi-year appropriations, and recognizes those appropriations as revenue when related program expenses are incurred. Accordingly, HUD recognizes grant-related revenue and related expenses as recipients perform under the contracts. HUD recognizes subsidy-related revenue and related expenses when the underlying assistance (e.g., provision of a Section 8 rental unit by a housing owner) is provided or upon disbursal of funds to PHAs.

FHA Unearned Premiums

Premiums charged by FHA for single family mortgage insurance provided by its Mutual Mortgage Insurance (MMI) Fund and Cooperative Management Housing Insurance (CMHI) Fund include up-front and annual risk based premiums. Pre-credit reform up-front risk based premiums are recorded as unearned revenue upon collection and are recognized as revenue over the period in which losses and insurance costs are expected to occur. Annual risk-based premiums are recognized as revenue on a straight-line basis throughout the year. FHA's other activities charge periodic insurance premiums over the mortgage insurance term. Premiums on annual installment policies are recognized for the liquidating accounts on a straight-line basis throughout the year.

Premiums associated with Credit Reform loan guarantees are included in the calculation of the Liability for Loan Guarantees (LLG) and not included in the unearned premium amount reported on the Balance Sheet, since the LLG represents the net present value of future cash flows associated with those insurance portfolios.

Ginnie Mae Fees

Fees received for Ginnie Mae's guaranty of mortgage-backed securities are recognized as earned. Commitment fees represent income that Ginnie Mae earns for providing approved issuers with authority to pool mortgages into Ginnie Mae mortgage-backed securities. The authority Ginnie Mae provides issuers expires 12 months from issuance for single family issuers and 24 months from issuance for multifamily issuers. Ginnie Mae receives Commitment Fees as issuers request Commitment Authority and recognizes the Commitment Fees as earned as Issuers use their Commitment Authority, with the balance deferred until earned or expired, whichever occurs first. Fees from expired commitment Authority are not returned to issuers.

F. Appropriations and Moneys Received from Other HUD Programs

The National Housing Act of 1990, as amended, provides for appropriations from Congress to finance the operations of GI and SRI funds. For Credit Reform loan guarantees, appropriations to the GI and SRI funds are provided at the beginning of each fiscal year to cover estimated losses on insured loans during the year. For pre-Credit Reform loan guarantees, FHA has permanent indefinite appropriation authority to finance any shortages of resources needed for operations.

Monies received from other HUD programs, such as interest subsidies and rent supplements, are recorded as revenue for the liquidating accounts when services are rendered. Monies received for the financing accounts are recorded as additions to the LLG or the Allowance for Subsidy when collected.

G. Investments

HUD limits its investments, principally comprised of investments by FHA's MMI/CMHI Fund and by Ginnie Mae, to non-marketable market-based Treasury interest-bearing obligations (i.e., investments not sold in public markets). The market value and interest rates established for such investments are the same as those for similar Treasury issues, which are publicly marketed.

HUD's investment decisions are limited by Treasury policy which: (1) only allows investment in Treasury notes, bills, and bonds; and (2) prohibits HUD from engaging in practices that result in "windfall" gains and profits, such as security trading and full scale restructuring of portfolios, in order to take advantage of interest rate fluctuations.

FHA's normal policy is to hold investments in U.S. Government securities to maturity. However, in certain circumstances, FHA may have to liquidate its U.S. Government securities before maturity to finance claim payments.

HUD reports investments in U.S. Government securities at amortized cost. Premiums or discounts are amortized into interest income over the term of the investment. HUD intends to hold investments to maturity, unless needed for operations. No provision is made to record unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity.

The Departments of Veterans Affairs and Housing and Urban Development Appropriations Act of 1999 and Section 601 of the Independent Agencies Act of 1999 provide FHA with new flexibility in reforming its single family claims and property disposition activities. In accordance with these Acts, FHA implemented the Accelerated Claims Disposition Demonstration program (the 601 program) to shorten the claim filing process, obtain higher recoveries from its defaulted guaranteed loans, and support the Office of Housing's mission of keeping homeowners in their home. To achieve these objectives, FHA transfers assigned mortgage notes to private-sector entities in exchange for cash and equity interest. The servicing and disposition of the mortgage notes are performed by the private-sector entities whose primary mission is dedicated to these types of activity.

With the transfer of assigned mortgage notes under the 601 program, FHA obtains ownership interest in the private-sector entities. This level of ownership interest enables FHA to exercise significant influence over the operating and financial policies of the entities. Accordingly, to comply with the requirement of Opinion No. 18 issued by the Accounting Principles Board (APB 18), FHA uses the equity method of accounting to measure the value of its investments in these entities. The equity method of accounting requires FHA to record its investments in the entities at cost initially. Periodically, the carrying amount of the investments is adjusted for cash distributions to FHA and for FHA's share of the entities' earnings or losses.

Multifamily Risk Sharing Debentures [Section542(c)] is a program available to lenders. The lender shares the risk in a property by issuing debentures for claim amount paid by FHA on defaulted insured loans. HUD must approve FHA's participation in the risk sharing program and determines the portion of risk FHA assumes. If FHA's risk is over 50 percent, HUD must review and approve the underwriting standards, terms, and conditions of the loan. If the loan defaults, the lender has 75 days to file a claim with FHA. FHA then pays the lender the initial settlement. The initial settlement is the Unpaid Principal Balance (UPB) and interest at the note rate from the date of the default to the date of the initial settlement. On the settlement date the lender issues FHA a debenture for the amount of the settlement at the note rate (determined by the U.S. Treasury) thus sharing the risk in the property. The percentage of risk for each party is stated in the debenture. Interest is accrued monthly and is paid on the anniversary date of the initial settlement. Only interest payments are required. The term of the debenture is 5 years. The debenture can be redeemed early if the property is sold. The lender will be paid their percentage of risk sharing from the net proceeds of the sale of the property after adjustments for escrows, reserve for placement, and interest on debenture, hazard insurance and property repairs. The net amount is considered to be final claim profit or loss.

H. Credit Program Receivables and Related Foreclosed Property

HUD finances mortgages and provides loans to support construction and rehabilitation of low rent housing, principally for the elderly and disabled under the Section 202/811 program. Prior to April 1996, mortgages were also assigned to HUD through FHA claims settlement (i.e., Mortgage Notes Assigned (MNAs)). Single family mortgages were assigned to FHA when the mortgagor defaulted due to certain "temporary hardship" conditions beyond the control of the mortgagor, and when, in management's judgment, it is likely that the mortgage could be brought current in the future. FHA's loans receivable include MNAs, also described as Secretary-held notes, and purchase money mortgages (PMM). Under the requirements of the FCRA, PMM notes are considered to be direct loans while MNA notes are considered to be defaulted guaranteed loans. The PMM loans are generated from the sales on credit of FHA's foreclosed properties to qualified non-profit organizations. The MNA notes are created when FHA pays the lenders for claims on defaulted guaranteed loans and takes assignment of the defaulted loans for direct collections. In addition, multifamily mortgages are assigned to FHA when lenders file mortgage insurance claims for defaulted notes.

Credit program receivables for direct loan programs and defaulted guaranteed loans assigned for direct collection are valued differently based on the direct loan obligation or loan guarantee commitment date. These valuations are in accordance with the Federal Credit Reform Act of 1990 and SFFAS No. 2, "Accounting for Direct Loans and Loan Guarantees," as amended by SFFAS No. 18. Those obligated or committed on or after October 1, 1991 (post-Credit Reform) are valued at the net present value of expected cash flows from the related receivables.

Credit program receivables resulting from obligations or commitments prior to October 1, 1991 (pre-Credit Reform) are recorded at the lower of cost or fair value (net realizable value). Fair value is estimated based on the prevailing market interest rates at the date of mortgage assignment. When fair value is less than cost, discounts are recorded and amortized to interest income over the remaining terms of the mortgages or upon sale of the mortgages. Interest is recognized as income when earned. However, when full collection of principal is considered doubtful, the accrual of interest income is suspended and receipts (both interest and principal) are recorded as collections of principal. Pre-Credit Reform loans are reported net of allowance for loss and any unamortized discount. The estimate for the allowance on credit program receivables is based on historical loss rates and recovery rates resulting from asset sales and property recovery rates, net of cost of sales.

Foreclosed property acquired as a result of defaults of loans obligated or loan guarantees committed on or after October 1, 1991, is valued at the net present value of the projected cash flows associated with the property. Foreclosed property acquired as a result in defaulted loans obligated or loan guarantees committed prior to 1992 is valued at net realizable value. The estimate for the allowance for loss related to the net realizable value of foreclosed property is based on historical loss rates and recovery rates resulting from property sales, net of cost of sales.

I. Borrowings

As further discussed in Note 11, several of HUD's programs have the authority to borrow funds from the U.S. Treasury for program operations. These borrowings, representing unpaid principal balances and future accrued interest is reported as debt in HUD's consolidated financial statements. The PIH Low Rent Public Housing Loan Program and the Housing for the Elderly or Handicapped fund were financed through borrowings from the Federal Financing Bank or the U.S. Treasury prior to the Department's conversion of these programs to grant programs. The Department also borrowed funds from the private sector to assist in the construction and rehabilitation of low rent housing projects under the PIH Low Rent Public Housing Loan Program. Repayments of these long-term borrowings have terms up to 40 years.

In accordance with Credit Reform accounting, FHA also borrows from the U.S. Treasury when cash is needed in its financing accounts. Usually, the need for cash arises when FHA has to transfer the negative credit subsidy amount related to new loan disbursements, and existing loan modifications from the financing accounts to the general fund receipts account (for cases in GI/SRI funds) or the liquidating account (for cases in MMI/CMHI funds). In some instances, borrowings are also needed to transfer the credit subsidy related to downward re-estimate from the GI/SRI financing account to the GI/SRI receipt account or when available cash is less than claim payments due.

J. Liability for Loan Guarantees

The potential future losses related to FHA's central business of providing mortgage insurance are accounted for as Loan Guarantee Liability in the consolidated balance sheets. As required by SFFAS No. 2, the Loan Guarantee Liability includes the Credit Reform related Liabilities for Loan Guarantees (LLG) and the Loan Loss Reserve (LLR).

The LLG and LLR are calculated as the present value of anticipated cash outflows for defaults, such as claim payments, premium refunds, property expense for on-hand properties and sale expense for sold properties, less anticipated cash inflows such as premium receipts, proceeds from asset sales and principal and interest on Secretary-held notes acquired from FHA's claim settlements of defaulted mortgages or pursuant to Section 221 (g) (4) of the National Housing Act.

HUD records its loan loss reserves for its mortgage insurance programs operated through FHA. FHA loss reserves are recorded for the net present value of estimated future cash flows associated with FHA-insured mortgage loans endorsed before fiscal year 1992.

K. Full Cost Reporting

Beginning in fiscal 1998, SFFAS No. 4 required that full costing of program outputs be included in Federal agency financial statements. Full cost reporting includes direct, indirect, and inter-entity costs. For purposes of the consolidated department financial statements, HUD identified each responsible segment's share of the program costs or resources provided by HUD or other Federal agencies. These costs are treated as imputed cost for the Statement of Net Cost and imputed financing for the Statement of Changes in Net Position.

L. Accrued Unfunded Leave and Federal Employees Compensation Act (FECA) Liabilities

Annual leave and compensatory time are accrued as earned and the liability is reduced as leave is taken. The liability at year-end reflects cumulative leave earned but not taken, priced at current wage rates. Earned leave deferred to future periods is to be funded by future appropriations. HUD offsets this unfunded liability by recording future financing sources in the Net Position section of its Consolidated Balance Sheet. Sick leave and other types of leave are expensed as taken.

HUD also accrues the portion of the estimated liability for disability benefits assigned to the agency under the Federal Employee Compensation Act (FECA), administered and determined by the Department of Labor (DOL). The liability, based on the net present value of estimated future payments based on a study conducted by DOL, was $82 million as of September 30, 2007 and $80 million as of September 30, 2006. Future payments on this liability are to be funded by future appropriations. HUD offsets this unfunded liability by recording future financing sources.

M. Retirement Plans

The majority of HUD's employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). FERS went into effect pursuant to Public Law 99-335 on January 1, 1987. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired before January 1, 1984, can elect to either join FERS and Social Security or remain in CSRS. HUD expenses its contributions to the retirement plans.

A primary feature of FERS is that it offers a savings plan whereby HUD automatically contributes 1 percent of pay and matches any employee contribution up to 5 percent of an individual's basic pay. Under CSRS, employees can contribute up to $15,000 of their pay to the savings plan, but there is no corresponding matching by HUD. Although HUD funds a portion of the benefits under FERS relating to its employees and makes the necessary withholdings from them, it has no liability for future payments to employees under these plans, nor does it report CSRS, FERS, or FECA assets, accumulated plan benefits, or unfunded liabilities applicable to its employees retirement plans. These amounts are reported by the Office of Personnel Management (OPM) and are not allocated to the individual employers. HUD's matching contribution to these retirement plans during fiscal 2007 and 2006 was $83 million and $81 million, respectively.

N. Loss Reserves

HUD records loss reserves for its mortgage insurance programs operated through FHA and its financial guaranty programs operated by Ginnie Mae. FHA loss reserves are recorded for the net present value of estimated future cash flows associated with FHA-insured mortgage loans endorsed before fiscal year 1992. Ginnie Mae establishes reserves for actual and probable defaults of issuers of Ginnie Mae-guaranteed mortgage-backed securities; such reserves are based on management's judgment about historical claim and loss information and current and projected economic factors.

O. Financial Accounting Standards Board Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees

The Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees,* Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57, and 107, and Rescission of FASB Interpretation No. 34, in November 2002. FIN 45 clarifies the requirements of FASB Statement No. 5, Accounting for Contingencies, relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under the guarantee. We have computed the fair value of our guarantee based on the life of the mortgage-backed securities and their underlying loans. Based on this evaluation we have disclosed an asset and liability of $425.9 million as of September 30, 2007 and $363.7 million as of September 30, 2006 categorized as other assets and other liabilities, see Note A. There is no impact on the net financial position of Ginnie Mae due to FIN 45.

P. Reclassification of HUD's Equity Balances

PBCAs assist the Office of Housing in managing its portfolio of properties, including the disbursement of subsidies to property owners who participate in the Section 8 program. HUD CFO worked with Multifamily Housing to develop an estimate of the gross receivable due from overpayments on PBCA contracts. The $16.7 million receivable amount for the overpayments was incorrectly recorded in HUD's Financial Reporting System used to generate HUD's financial statements in FY 2006. The $16.7 million error created an overstatement of HUD's cumulative results of operations and an understatement of unexpended appropriations on the Statement of Changes in Net Position by $33 million respectively. CFO Management concluded that the financial statement error was not material and therefore no restatement of HUD's fiscal year 2006 financial statements was warranted.

NOTE 3 – ENTITY AND NON-ENTITY ASSETS

Non-entity assets consist of assets that belong to other entities but are included in the Department's consolidated financial statements and are offset by various liabilities to accurately reflect HUD's net position. The Department's non-entity assets principally consist of: (1) U.S. deposit of negative credit subsidy in the GI/SRI general fund receipt account, (2) escrow monies collected by FHA that are either deposited at the U.S Treasury, Minority-Owned banks or invested in U.S. Treasury securities, and (3) cash remittances from Section 8 bond refundings deposited in the General Fund of the Treasury.

HUD's assets as of September 30, 2007 and 2006 were as follows (dollars in millions):

Description	2007			2006		
	Entity	Non-Entity	Total	Entity	Non-Entity	Total
Intragovernmental						
Fund Balance with Treasury (Note 4)	$ 66,141	$ 2,905	$ 69,046	$ 80,545	$ 850	$ 81,395
Investments (Note 5)	31,265	5	31,270	30,421	5	30,426
Accounts Receivable (net) (Note 6)	-	-	-	-	-	-
Other Assets (Note 9)	9	-	9	26	-	26
Total Intragovernmental Assets	$ 97,415	$ 2,910	$ 100,325	$ 110,992	$ 855	$ 111,847
Investments (Note 5)	121		121	98	-	98
Accounts Receivable (net) (Note 6)	186	70	256	287	76	363
Loan Receivables and	-					
Related Foreclosed Property (net) (Note 7)	9,566	-	9,566	10,045	-	10,045
General Property, Plant, and Equipment (net) (Note8)	212	-	212	176	-	176
Other Assets (Note 9)	483	110	593	423	111	534
Total Assets	$ 107,983	$ 3,090	$ 111,073	$ 122,021	$ 1,042	$ 123,063

NOTE 4 – FUND BALANCE WITH THE U.S. TREASURY

The U.S. Treasury, which, in effect, maintains HUD's bank accounts, processes substantially all of HUD's receipts and disbursements. HUD's fund balances with the U.S. Treasury as of September 30, 2007 and 2006 were as follows (dollars in millions):

Description	2007	2006
Revolving Funds	$ 11,418	$ 14,062
Appropriated Funds	54,757	66,442
Trust Funds	5	5
Other	2,866	886
Total - Fund Balance	$ 69,046	$ 81,395

The Department's Fund Balance with Treasury includes receipt accounts established under current Federal Credit Reform legislation and cash collections deposited in restricted accounts that cannot be used by HUD for its programmatic needs. These designated funds established by the Department of Treasury are classified as suspense and/or deposit funds and consist of accounts receivable balances due from the public. A Statement of Budgetary Resources is not prepared for these funds since any cash remittances received by the Department are not defined as a budgetary resource.

In addition to fund balance, contract and investment authority are also a part of HUD's funding sources. Contract authority permits an agency to incur obligations in advance of an appropriation, offsetting collections, or receipts to make outlays to liquidate the obligations. HUD has permanent indefinite contract authority. Since federal securities are considered the equivalent of cash for budget purposes, investments in them are treated as a change in the mix of assets held, rather than as a purchase of assets.

A primary reason for the increase in HUD's fund balance with Treasury is appropriations received for hurricane disaster relief efforts as further explained in Note 24.

HUD's fund balances with U.S. Treasury as reflected in the entity's general ledger as of September 30, 2007, were as follows (dollars in millions):

Status of Resources - 2007

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Status of Total Resources	Fund Balance	Other Authority	Total Resources
FHA	$ 1,180	$ 25,740	$ 2,296	$ (1)	$ 29,215	$ 6,800	$ 22,416	$ 29,216
GNMA	-	13,095	129	(77)	13,147	4,433	8,715	13,148
Section 8 Rental Assistance	943	259	14,067		15,269	5,336	9,932	15,268
CDBG	766	20	19,768		20,554	20,554	-	20,554
HOME	317	5	5,379		5,701	5,700	-	5,700
Operating Subsidies	-	4	1,096		1,100	1,100	-	1,100
Public Housing Loans and	206	18	9,129		9,353	7,777	1,576	9,353
Section 202/811	1,053	126	5,076		6,255	6,255	-	6,255
Section 235/236	31	740	4,972		5,743	349	5,394	5,743
All Other	2,225	478	5,235	(22)	7,916	7,907	9	7,916
Total	$ 6,721	$ 40,485	$ 67,147	$ (100)	$ 114,253	66,211	$ 48,042	$ 114,253

Status of Resources Covered by Fund Balance

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Fund Balance	Non-Bugdetary: Deposit and Receipt Accounts	Suspense,	Total Fund Balance
FHA	$ 1,180	$ 3,325	$ 2,296	$ (1)	$ 6,800	$ 2,759	$ -	9,559
GNMA	-	4,381	129	(77)	4,433		-	4,433
Section 8 Rental Assistance	532	202	4,602		5,336	13	-	5,349
CDBG	766	20	19,768		20,554		-	20,554
HOME	317	4	5,379		5,700		-	5,700
Operating Subsidies	-	4	1,096		1,100		-	1,100
Public Housing Loans and	206	18	7,553		7,777		-	7,777
Section 202/811	1,053	126	5,076		6,255		-	6,255
Section 235/236	5	3	341		349		-	349
All Other	2,225	470	5,234	(22)	7,907	63	-	7,970
Total	$ 6,284	$ 8,553	$ 51,474	$ (100)	$ 66,211	$ 2,835	$ -	$ 69,046

Status of Resources Covered by Other Authority

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Permanent Indefinite Authority	Investment Authority
FHA		$ 22,416				$ 22,416
GNMA		8,715				8,715
Section 8 Rental Assistance	$ 410	57	$ 9,465		$ 9,932	
Public Housing Loans and	-	-	1,576		1,576	
Section 235/236	26	737	4,631		5,394	
All Other	-	8	1		9	
Total	$ 436	$ 31,933	$ 15,673	$ -	$ 16,911	$ 31,131

Status of Receipt Account Balances

Description	Fund Balance
FHA	$ 2,759
GNMA	-
Section 8 Rental Assistance	13
All Other	63
Total	$ 2,835

Status of Resources - 2006

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Status of Total Resources	Fund Balance	Other Authority	Total Resources
FHA	$ 2,292	$ 27,130	$ 2,357	$ (5)	$ 31,774	$ 9,891	$ 21,883	$ 31,774
GNMA	-	12,442	109	(80)	12,471	4,056	8,415	12,471
Section 8 Rental Assistance	1,087	1,156	16,986		19,229	8,489	10,740	19,229
CDBG	6,237	28	21,413		27,678	27,678		27,678
HOME	268	2	5,551		5,821	5,821		5,821
Operating Subsidies	1	1	940		942	943		943
Public Housing Loans and Grants	405	11	9,610		10,026	8,444	1,582	10,026
Section 202/811	1,157	84	5,385		6,626	6,626	-	6,626
Section 235/236	31	936	5,799		6,766	434	6,332	6,766
All Other	2,084	344	5,835	(30)	8,233	8,223	10	8,233
Total	$ 13,562	$ 42,134	$ 73,985	$ (115)	$ 129,566	$ 80,605	$ 48,962	$ 129,567

Status of Resources Covered by Fund Balance

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Fund Balance	Non-Budgetary Funds (Suspense, Deposit and Receipt Accounts)	Total Fund Balance
FHA	$ 2,292	$ 5,247	$ 2,357	$ (5)	$ 9,891	$ 677	$ 10,568
GNMA	-	4,028	109	(80)	4,057	-	4,057
Section 8 Rental Assistance	834	79	7,576		8,489	12	8,501
CDBG	6,237	28	21,413		27,678		27,678
HOME	268	2	5,551		5,821		5,821
Operating Subsidies	1	1	940		942		942
Public Housing Loans and Grants	405	11	8,028		8,444	-	8,444
Section 202/811	1,157	84	5,385		6,626		6,626
Section 235/236	1	3	430		434	-	434
All Other	2,084	336	5,833	(30)	8,223	101	8,324
Total	$ 13,279	$ 9,819	$ 57,622	$ (115)	$ 80,605	$ 790	$ 81,395

Status of Resources Covered by Other Authority

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Permanent Indefinite Authority	Investment Authority
FHA	-	$ 21,883	-	-		$ 21,883
GNMA	-	8,415	-	-		8,415
Section 8 Rental Assistance	$ 253	1,076	$ 9,411	-	$ 10,740	
Public Housing Loans and Grants	-	-	1,582	-	1,582	
Section 235/236	30	932	5,370	-	6,332	
All Other	-	9	1	-	10	
Total	$ 283	$ 32,315	$ 16,364	$ -	$ 18,664	$ 30,298

Status of Receipt Account Balances

Description	Fund Balance
FHA	$ 677
GNMA	-
Section 8 Rental Assistance	12
All Other	101
Total	$ 790

An immaterial difference exists between HUD's recorded Fund Balances with the U.S. Treasury and the U.S. Department of Treasury's records. It is the Department's practice to adjust its records to agree with Treasury's balances at the end of the fiscal year. The adjustments are reversed at the beginning of the following fiscal year.

NOTE 5 - INVESTMENTS

The U.S. Government securities are non-marketable intra-governmental securities. Interest rates are established by the U.S. Treasury and during fiscal year 2007 ranged from 0.88 percent to 4.62 percent. During fiscal year 2006 interest rates ranged from 0.88 percent to 6.50 percent. The amortized cost and estimated market value of investments in debt securities as of September 30, 2007 and 2006 were as follows (dollars in millions):

	Cost	Par Value	Unamortized Premium (Discount)	Accrued Interest	Net Investments	Unamortized Gain	Market Value
FY 2007	$ 30,870	$ 31,168	$ (214)	$ 316	$ 31,270	$ 192	$ 31,462
FY 2006	$ 30,079	$ 30,421	$ (250)	$ 255	$ 30,426	$ (19)	$ 30,407

Investments in Private-Sector Entities

These investments in private-sector entities are the result of FHA's participation in the Accelerated Claims Disposition Demonstration program in fiscal years 2007 and 2006 as discussed in Note 2G. The following table presents financial data on FHA's investments in private-sector entities as of September 30, 2007 and 2006 (dollars in millions):

	Beginning Balance	New Acquisitions	Share of Earnings or Losses	Return of Investments	Other Adjustments	Ending Balance
FY 2007	$ 98	$ -	$ (1)	$ (56)	$ -	$ 41
FY 2006	$ 201	$ 49	$ 15	$ (167)	$ -	$ 98

This table of investments consists of the debentures issued to FHA by lenders participating in the Multifamily Risk-Sharing program under Section 542(c) as of September 30, 2007. The cost is the amount paid at settlement date.

Risk Sharing Debentures

	Beginning Balance	Acquired	Redeemed	Ending Balance
Debentures	$ -	$ 80	$ -	$ 80
Accrued Interest	$ -	$ -	$ -	$ -
September 30, 2007				$ 80

	Beginning Balance	Acquired	Redeemed	Ending Balance
Debentures	$ -	$ -	$ -	$ -
Accrued Interest	$ -	$ -	$ -	$ -
September 30, 2006				$ -

The condensed, audited financial information related to these private-sector entities as of December 31, 2006, and for the period from inception to December 31, 2005, is summarized below (dollars in millions):

	2006	2005
Total assets, primarily mortgage loans	$ 258	$ 422
Liabilities	$ 2	$ 3
Partners' capital	256	419
Total liabilities and partners's capital	$ 258	$ 422
Revenues	$ 78	$ 184
Expenses	(23)	(20)
Net Income	$ 55	$ 164

NOTE 6 - ACCOUNTS RECEIVABLE

The department's accounts receivable represents Section 8 year-end settlements, claims to cash from the public and state and local authorities for bond refundings, sustained audit findings, FHA insurance premiums and foreclosed property proceeds. A 100 percent allowance for loss is established for all delinquent accounts 90 days and over.

Section 8 Settlements

Prior to January 1, 2005, the Housing Choice Voucher (HCV) Program's Section 8 subsidies were disbursed based on estimated amounts due under the contracts. At the end of each year, the actual amount due under the contracts was determined. The excess of subsidies paid to PHAs during the year over the actual amount due was reflected as an accounts receivable in the balance sheet. These receivable amounts were "collected" by offsetting such amounts with subsidies due to the PHAs in subsequent periods. On January 1, 2005, Congress changed the basis of the program funding from a "unit-based" process with program variables that affected the total annual Federal funding need, to a "budget-based" process that limits the Federal funding to PHAs to a fixed amount. Under this "budget-based" process, HUD records an expense for the HCV Program when each monthly allocation of program funds is added to the PHAs letter-of-credit for drawdown and the PHA records a corresponding revenue on its books. A year end settlement process to determine actual amounts due is no longer applicable

Bond Refundings

Many of the Section 8 projects constructed in the late 1970s and early 1980s were financed with tax exempt bonds with maturities ranging from 20 to 40 years. The related Section 8 contracts provided that the subsidies would be based on the difference between what tenants could pay pursuant to a formula, and the total operating costs of the Section 8 project, including debt service. The high interest rates during the construction period resulted in high subsidies. When interest rates came down in the 1980s, HUD was interested in getting the bonds refunded. One method used to account for the savings when bonds are refunded (PHA's) sell a new series of bonds at a lower interest rate, to liquidate the original bonds), is to continue to pay the original amount of the bond debt service to a trustee. The amounts paid in excess of the lower "refunded" debt service and any related financing costs, are considered savings. One-half of these savings are provided to the PHA, the remaining half is returned to HUD. As of September 30, 2007 and 2006, HUD was due $62 million and $71 million, respectively.

Other Receivables

Other receivables include sustained audit findings, refunds of overpayment, FHA insurance premiums and foreclosed property proceeds due from the public.

The following shows accounts receivable as reflected in the Balance Sheet as of September 30, 2007 and 2006, as follows (dollars in millions):

	2007			2006		
Description	Gross Accounts Receivable	Allowance for Loss	Total	Gross Accounts Receivable	Allowance for Loss	Total
Section 8 Settlements	$ 82	$ (42)	40	76	-	76
Bond Refundings	65	$ (3)	62	81	$ (10)	71
Other Receivables:						
FHA	124	(5)	119	51	-	51
Other Receivables	49	(14)	35	248	(83)	165
Total Assets	$ 320	$ (64)	$ 256	$ 456	$ (93)	$ 363

NOTE 7 - DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS

HUD reports direct loan obligations or loan guarantee commitments made prior to fiscal year 1992 and the resulting direct loans or defaulted guaranteed loans, net of allowance for estimated uncollectible loans or estimated losses.

Direct loan obligations or loan guarantee commitments made after fiscal 1991, and the resulting direct loans or defaulted guaranteed loans, are governed by the Federal Credit Reform Act of 1990 and are recorded as the net present value of the associated cash flows (i.e. interest rate differential, interest subsidies, estimated delinquencies and defaults, fee offsets, and other cash flows).

Additionally, HUD insures Home Equity Conversion Mortgages (HECM), also known as reverse mortgages. These loans are used by senior homeowners age 62 and older to convert the equity in their home into monthly streams of income and/or a line of credit to be repaid when they no longer occupy the home. Unlike ordinary home equity loans, a HUD reverse mortgage does not require repayment as long as the home is the borrower's principal residence.

The following is an analysis of loan receivables, loan guarantees, liability for loan guarantees, and the nature and amounts of the subsidy costs associated with the loans and loan guarantees for fiscal 2007 and 2006 were as follows:

A. List of HUD's Direct Loan and/or Loan Guarantee Programs:

1. FHA
2. Housing for the Elderly and Disabled
3. Low Rent Public Housing Loan Fund
4. All Other
    a) Revolving Fund
    b) Flexible Subsidy
    c) CDBG, Section 108(b)
    d) Indian Housing Loan Guarantee Fund
    e) Loan Guarantee Recovery Fund
    f) Native Hawaiian Housing Loan Guarantee Fund
    g) Title VI Indian Housing Loan Guarantee Fund

B. Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method) (dollars in millions):

Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
$ 16	$ 5	$ (6)	-	$ 15
4,594	56	(17)	$ 1	4,634
1	1	-	-	2
655	11	(475)	1	192
$ 5,266	$ 73	$ (498)	$ 2	$ 4,843

2006

Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
$ 17	$ 3	$ (7)	-	$ 13
5,520	62	(22)	$ 1	5,561
1	-	-	-	1
675	11	(488)	2	200
$ 6,213	$ 76	$ (517)	$ 3	$ 5,775

C. Direct Loans Obligated After FY 1991(dollars in millions):

	2007				
Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans
FHA	1	-	$ (3)	-	$ (2)

	2006				
Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans
FHA	1	-	$ (4)	-	$ (3)

D. Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method)(dollars in millions):

	2007				
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Defaulted Guaranteed Loans Receivable, Net
FHA	$ 2,989	$ 212	$ (804)	$ 8	$ 2,405

	2006				
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Defaulted Guaranteed Loans Receivable, Net
FHA	$ 2,978	$ 135	$ (819)	$ 14	$ 2,308

E. Defaulted Guaranteed Loans from Post-FY 1991 Guarantees (dollars in millions):

	2007				
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property, Gross	Value of Assets Related to Defaulted Guaranteed Loans
FHA	$ 873	$ 186	$ (1,779)	$ 3,040	$ 2,320

	2006				
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property, Gross	Value of Assets Related to Defaulted Guaranteed Loans
FHA	$ 917	$ 48	$ (1,889)	$ 2,888	$ 1,964

	2007	2006
Total Credit Program Receivables and Related Foreclosed Property, Net	$9,567	$10,045

F. Guaranteed Loans Outstanding (dollars in millions):

Guaranteed Loans Outstanding:

Loan Guarantee Programs	2007 Outstanding Principal, Guaranteed Loans, Face Value	2007 Amount of Outstanding Principal Guaranteed
FHA Programs	$ 438,872	$ 399,960
All Other	2,998	2,993
Total	$ 441,870	$ 402,953

Loan Guarantee Programs	2006 Outstanding Principal, Guaranteed Loans, Face Value	2006 Amount of Outstanding Principal Guaranteed
FHA Programs	$ 434,070	$ 395,771
All Other	2,879	2,879
Total	$ 436,949	$ 398,650

Home Equity Conversion Mortgage Loans Outstanding:

Loan Guarantee Programs	2007 Current Year Endorsements	Cumulative Current Outstanding Balance	Cumulative Maximun Potential Liability
FHA GI/SRI Programs	$ 24,567	$ 29,982	$ 56,676

Loan Guarantee Programs	2006 Current Year Endorsements	Cumulative Current Outstanding Balance	Cumulative Maximun Potential Liability
FHA GI/SRI Programs	$ 17,994	$ 18,295	$ 35,878

New Guaranteed Loans Disbursed (Current Reporting Year):

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs	$ 63,511	$ 63,139
All Other	312	311
Total	$ 63,823	$ 63,450

New Guaranteed Loans Disbursed (Prior Reporting Years):

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs	$ 61,625	$ 59,725
All Other	539	539
Total	$ 62,164	$ 60,264

G. Liability for Loan Guarantees (Estimated Future Default Claims, Pre-1992) (dollars in millions):

	2007		
Loan Guarantee Programs	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees for Post-1991 Guarantees (Present Value)	Total Liabilities For Loan Guarantees
FHA Programs	$ 371	$ 7,060	$ 7,431
All Other	-	120	120
Total	$ 371	$ 7,180	$ 7,551

	2006		
Loan Guarantee Programs	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees for Post-1991 Guarantees (Present Value)	Total Liabilities For Loan Guarantees
FHA Programs	$ 498	$ 2,984	$ 3,482
All Other	-	108	108
Total	$ 498	$ 3,092	$ 3,590

H. Subsidy Expense for Post-FY 1991 Loan Guarantees:

Subsidy Expense for Current Year Loan Guarantees (dollars in millions)

Loan Guarantee Programs	2007 Default Component	2007 Fees Component	2007 Other Component	2007 Subsidy Amount
FHA	$ 2,003	$ (3,694)	$ 667	$ (1,024)
All Other	8	-	-	8
Total	$ 2,011	$ (3,694)	$ 667	$ (1,016)

Loan Guarantee Programs	2006 Default Component	2006 Fees Component	2006 Other Component	2006 Subsidy Amount
FHA	$ 1,465	$ (3,214)	$ 378	$ (1,371)
All Other	13	-	-	13
Total	$ 1,478	$ (3,214)	$ 378	$ (1,358)

Modification and Re-estimates (dollars in millions)

Loan Guarantee Programs	2007 Total Modifications	2007 Interest Rate Reestimates	2007 Technical Reestimates	2007 Total Reestimates
FHA	(5)	-	$ 3,630	$ 3,625
All Other			(3)	(3)
Total	$ (5)	$ -	$ 3,627	$ 3,622

Loan Guarantee Programs	2006 Total Modifications	2006 Interest Rate Reestimates	2006 Technical Reestimates	2006 Total Reestimates
FHA	(9)	-	$ 421	$ 412
All Other			(4)	(4)
Total	$ (9)	$ -	$ 417	$ 408

Total Loan Guarantee Subsidy Expense (dollars in millions)

Loan Guarantee Programs	Current Year	Prior Year
FHA	$ 2,601	$ (959)
All Other	5	9
Total	$ 2,606	$ (950)

I. Subsidy Rates for Loan Guarantees by Programs and Component:

Budget Subsidy Rates for Loans Guarantee for FY 2007

Loan Guarantee Program	Default	Fees and Other Collections	Other	Total
FHA				
FHA	2.24%	-4.12%	0.74%	-1.14%
All Other				
CDBG, Section 108 (b)	2.17%			2.17%
Loan Guarantee Recovery	50.00%			50.00%
Indian Housing	2.35%			2.35%
Natiove Hawaiian Housing	2.35%			2.35%
Title VI Indian Housing	11.99%			11.99%

The subsidy rates above pertain only to FY 2007 cohorts. These rates cannot be applied to the guarantees of loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loan guarantees reported in the current year could result from disbursements of loans from both current year cohorts and prior year(s) cohort. The subsidy expense reported in the current year also includes modifications re-estimates.

J. Schedule for Reconciling Loan Guarantee Liability Balances (post 1991 Loan Guarantees):

(dollars in millions)

Beginning Balance, Changes, and Ending Balance	FY 2007	FY 2006
Beginning balance of the loan guarantee liability	$ 3,589	$ 4,678
Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:		
(a) Interest supplement costs	-	-
(b) Default costs (net of recoveries)	2,012	1,478
(c) Fees and other collections	(3,694)	(3,214)
(d) Othe subsidy costs	667	378
Total of the above subsidy expense components	$ (1,015)	$ (1,358)
Adjustments:		
(a) Loan guarantee modifications	-	-
(b) Fees Received	3,234	2,819
(c) Interest supplemental paid	-	-
(d) Foreclosed property and loans acquired	3,756	4,011
(e) Claim payments to lenders	(5,870)	(6,296)
(f) Interest accumulation on the liability balance	(61)	41
(g) Other	(6)	12
Ending balance of the subsidy cost allowance before reestimates	$ 3,627	$ 3,907
Add or Subtract subsidy reestimates by component:		
(a) Interest rate reestimate	381	(1,670)
(b) Technical/default reestimate	3,543	1,352
Total of the above reestimate components	3,924	(318)
Ending balance of the subsidy cost allowance	$ 7,551	$ 3,589

K. Administrative Expense (dollars in millions):

Loan Guarantee Program	FY 2007	FY 2006
FHA	$ 493	$ 501
All Other	1	1
Total	$ 494	$ 502

NOTE 8 – GENERAL PROPERTY, PLANT, AND EQUIPMENT

General property plant and equipment consists of furniture, fixtures, equipment and data processing software used in providing goods and services that have an estimated useful life of two or more years. Purchases of $100,000 or more are recorded as an asset and depreciated over their estimated useful life on a straight-line basis with no salvage value. Capitalized replacement and improvement costs are depreciated over the remaining useful life of the replaced or improved asset. Generally, the department's assets are depreciated over a 4-year period, unless it can be demonstrated that the estimated useful life is significantly greater than 4 years.

The following shows general property plant and equipment as of September 30, 2007 and 2006, (dollars in millions):

Description	FY 2007			FY 2006		
	Cost	Accum Depr and Amortization	Book Value	Cost	Accum Depr and Amortization	Book Value
Equipment	$ 16	$ (12)	$ 4	$ 31	$ (26)	$ 5
Leasehold Improvements	6	(4)	2	6	(3)	3
Internal Use Software	126	(76)	50	116	(61)	55
Internal Use Software in Development	157	-	157	113	-	113
Total Assets	$ 305	$ (92)	$ 213	$ 266	$ (90)	$ 176

NOTE 9 - OTHER ASSETS

The following shows HUD's Other Assets as of September 30, 2007 (dollars in millions):

Description	FHA	Ginnie Mae	All Other	Total
Intragovernmental Assets:				
Other Assets	-		$ 8	8
Total Intragovernmental Assets	-	-	8	8
Mortgagor Reserves for Replacement - Cash	$ 110	-	-	$ 110
Advances to the Public	-	-	$ -	-
Financial Accounting Standards Board Interpretation No 45		$ -		-
Other Assets	33	449	1	483
Total	$ 143	$ 449	$ 9	$ 601

The following shows HUD's Other Assets as of September 30, 2006 (dollars in millions):

Description	FHA	Ginnie Mae	All Other	Total
Intragovernmental Assets:				
Other Assets	-	-	$ 26	26
Total Intragovernmental Assets	-	-	$ 26	$ 26
Mortgagor Reserves for Replacement - Cash	$ 111	-	-	$ 111
Advances from the Public	-	-	$ 2	2
Financial Accounting Standards Board Interpretation No 45		$ -		0
Other Assets	30	391	-	421
Total	$ 141	$ 391	$ 28	$ 560

NOTE 10 – LIABILITIES COVERED AND NOT COVERED BY BUDGETARY RESOURCES

The following shows HUD's liabilities as of September 30, 2007 and 2006 (dollars in millions):

Description	2007			2006		
	Covered	Not-Covered	Total	Covered	Not-Covered	Total
Intragovernmental						
Accounts Payable	$ 5	-	$ 5	$ -	-	$ -
Debt	5,459	-	$ 5,459	$ 7,249	-	$ 7,249
Other Intragovernmental Liabilities	3,789	$ 18	3,807	2,602	$ 68	2,670
Total Intragovernmental Liabilities	$ 9,253	$ 18	$ 9,271	$ 9,851	$ 68	$ 9,919
Accounts Payable	769	-	769	757	-	757
Liabilities for Loan Guarantees	7,551	-	7,551	3,589	-	3,589
Debt	981	-	981	1,252	-	1,252
Federal Employee and Veterans' Benefits	82	-	82	-	80	80
Loss Reserves	536	-	536	534	-	534
Other Liabilities	1,087	83	1,170	1,111	81	1,192
Total Liabilities	$ 20,259	$ 101	$ 20,360	$ 17,094	$ 229	$ 17,323

NOTE 11 - DEBT

Several HUD programs have the authority to borrow funds from the U.S. Treasury for program operations. Additionally, the National Housing Act authorizes FHA, in certain cases, to issue debentures in lieu of cash to pay claims. Also, PHAs and TDHEs borrowed funds from the private sector and from the Federal Financing Bank (FFB) to finance construction and rehabilitation of low rent housing. HUD is repaying these borrowings on behalf of the PHAs and TDHEs.

The following shows HUD borrowings, and borrowings by PHAs/TDHEs for which HUD is responsible for repayment, as of September 30, 2007 (dollars in millions):

Description	Beginning Balance	Net Borrowings	Ending Balance
Agency Debt:			
Held by Government Accounts	$ 991	$ (105)	$ 886
Held by the Public	1,251	(270)	981
Total Agency Debt	$ 2,242	$ (375)	$ 1,867
Other Debt:			
Debt to the U.S. Treasury	$ 6,258	$ (1,685)	$ 4,573
Total Debt	$ 8,500	$ (2,060)	$ 6,440
Classification of Debt:			
Intragovernmental Debt			$ 5,459
Debt held by the Public			981
Total Debt			$ 6,440

The following shows HUD borrowings, and borrowings by PHAs/TDHEs for which HUD is responsible for repayment, as of September 30, 2006 (dollars in millions):

Description	Beginning Balance	Net Borrowings	Ending Balance
Agency Debt:			
Held by Government Accounts	$ 1,090	$ (99)	$ 991
Held by the Public	1,542	(290)	1,252
Total Agency Debt	$ 2,632	$ (389)	$ 2,243
Other Debt:			
Debt to the U.S. Treasury	$ 7,832	$ (1,574)	$ 6,258
Total Debt	$ 10,464	$ (1,963)	$ 8,501
Classification of Debt:			
Intragovernmental Debt			$ 7,249
Debt held by the Public			1,252
Total Debt			$ 8,501

Interest paid on borrowings as of September 30, 2007 and 2006 was $117 million and $1,000 million respectively. The purpose of these borrowings is discussed in the following paragraphs.

Borrowings from the U.S. Treasury

HUD is authorized to borrow from the U.S. Treasury to finance Housing for Elderly and Disabled loans. The Treasury borrowings typically have a 15-year term, but may be repaid prior to maturity at HUD's discretion. However, such borrowings must be repaid in the sequence in which they were borrowed from Treasury. The interest rates on the borrowings are based on Treasury's 30-year bond yield at the time the notes are issued. Interest is payable on April 30 and October 31. Interest rates ranged from 7.44 percent to 8.18 percent during fiscal year 2006. All Treasury borrowings were paid in full during fiscal year 2006.

In fiscal 2007 and 2006, FHA borrowed $0 million and $896 million, respectively, from the U.S. Treasury. The borrowings were needed when FHA initially determined negative credit subsidy amounts related to new loan disbursements or to existing loan modifications. In some instances, borrowings were needed where available cash was less than claim payments due or downward subsidy-estimates. All borrowings were made by FHA's financing accounts. Negative subsidies were generated primarily by the MMI/CMHI Fund financing account; downward re-estimates have occurred from activity of the FHA's loan guarantee financing accounts. These borrowings carried interest rates ranging from 2.33 percent to 7.34 percent during fiscal 2007 and from 2.41 percent to 7.36 percent during fiscal year 2006.

Borrowings from the Federal Financing Bank (FFB) and the Public

During the 1960s, 1970s, and 1980s, PHAs obtained loans from the private sector and from the FFB to finance development and rehabilitation of low rent housing projects. HUD is repaying these borrowings on behalf of the PHAs, through the Low Rent Public Housing program. For borrowings from the Public, interest is payable throughout the year. Interest rates range from 3.25 percent to 6.0 percent during both fiscal year 2007 and 2006. The borrowings from the FFB and the private sector have terms up to 40 years. FFB interest is payable annually on November 1. Interest rates range from 10.67 percent to 16.18 percent during both fiscal year 2007 and 2006.

Before July 1, 1986, the FFB purchased notes issued by units of general local government and guaranteed by HUD under Section 108. These notes had various maturities and carried interest rates that were one-eighth of one percent above rates on comparable Treasury obligations. The FFB still holds substantially all outstanding notes, and no note purchased by the FFB has ever been declared in default.

Debentures Issued To Claimants

The National Housing Act authorizes FHA, in certain cases, to issue debentures in lieu of cash to settle claims. FHA-issued debentures bear interest at rates established by the U.S. Treasury. Interest rates related to the outstanding debentures ranged from 4.0 percent to 12.88 percent during both FY 2007 and FY 2006. Debentures may be redeemed by lenders prior to maturity to pay mortgage insurance premiums to FHA, or they may be called with the approval of the Secretary of the U. S. Treasury.

NOTE 12 – FEDERAL EMPLOYEE and VETERANS' BENEFITS

HUD also accrues the portion of the estimated liability for disability benefits assigned to the agency under the Federal Employee Compensation Act (FECA), administered and determined by the Department of Labor (DOL). The liability, based on the net present value of estimated future payments based on a study conducted by DOL, was $ 82 million as of September 30, 2007 and $80 million as of September 30, 2006. Future payments on this liability are to be funded by future appropriations. HUD offsets this unfunded liability by recording future financing sources.

The Department's Federal Employee and Veterans' benefit expenses totaled approximately $135 million for fiscal year 2007; $35 million to be funded by OPM. Federal Employee and Veterans' benefit expenses totaled approximately $136 million for fiscal 2006. This includes $38 million to be funded by the OPM. Amounts funded by OPM are charged to expense with a corresponding amount considered as an imputed financing source in the statement of changes in net position.

NOTE 13 - LOSS RESERVES

For fiscal years 2007 and 2006, Ginnie Mae established loss reserves of $536 and $534 million, respectively, which represents probable defaults by issuers of mortgage-backed securities, through a provision charged to operations. The reserve is relieved as losses are realized from the disposal of the defaulted issuers' portfolios. Ginnie Mae recovers part of its losses through servicing fees on the performing portion of the portfolios and the sale of servicing rights which transfers to Ginnie Mae upon the default of the issuer. Ginnie Mae management believes that its reserve is adequate to cover probable losses from defaults by issuers of Ginnie Mae guaranteed mortgage-backed securities.

Ginnie Mae incurs losses when insurance and guarantees do not cover expenses that result from issuer defaults. Such expenses include: (1) unrecoverable losses on individual mortgage defaults because of coverage limitations on mortgage insurance or guarantees, (2) ineligible mortgages included in defaulted Ginnie Mae pools, (3) improper use of proceeds by an issuer, and (4) non-reimbursable administrative expenses and costs incurred to service and liquidate portfolios of defaulted issuers.

NOTE 14 - OTHER LIABILITIES

The following shows HUD's Other Liabilities as of September 30, 2007 (dollars in millions):

Description	Non-Current	Current	Total
Intragovernmental Liabilities			
FHA Special Receipt Account Liability	-	$ 3,657	$ 3,657
Unfunded FECA Liability	$ 18	-	18
Employer Contributions and Payroll Taxes		5	5
Miscellaneous Receipts Payable to Treasury	-	106	106
Penalty Due to Treasury	-	-	-
Advances to Federal Agencies		22	22
Total Intragovernmental Liabilities	$ 18	$ 3,790	$ 3,808
Other Liabilities			
FHA Other Liabilities	-	$ 288	$ 288
FHA Escrow Funds Related to Mortgage Notes	-	155	155
FHA Unearned Premiums	$ 7	24	31
Ginnie Mae Deferred Income	-	76	76
Deferred Credits	-	5	5
Deposit Funds	58	11	69
Accrued Unfunded Annual Leave	77	-	77
Accrued Funded Payroll Benefits	-	36	36
Other - FIN 45		426	426
Other	6	-	6
Total Other Liabilities	$ 166	$ 4,811	$ 4,977

Special Receipt Account Liability

The special receipt account liability is created from negative subsidy endorsements and downward credit subsidy in the GI/SRI special receipt account.

The following shows HUD's Other Liabilities as of September 30, 2006 (dollars in millions):

Description	Non-Current	Current	Total
Intragovernmental Liabilities			
FHA Special Receipt Account Liability	-	$ 2,486	$ 2,486
HUD-Section 312 Rehabilitation Program Payable	-	-	-
Unfunded FECA Liability	$ 18	-	18
Employer Contributions and Payroll Taxes		5	5
Miscellaneous Receipts Payable to Treasury	103	-	103
Penalty Due to Treasury		50	50
Advances to Federal Agencies		8	8
Total Intragovernmental Liabilities	$ 121	$ 2,549	$ 2,670
Other Liabilities			
FHA Other Liabilities	-	$ 266	$ 266
FHA Escrow Funds Related to Mortgage Notes	-	170	170
FHA Unearned Premiums	$ 119	21	140
Ginnie Mae Deffered Income	-	73	73
Deferred Credits	-	3	3
Deposit Funds	54	2	56
Accrued Unfunded Annual Leave	75	-	75
Accrued Funded Payroll Benefits	-	39	39
Other - FIN 45	-	364	364
Other	6	-	6
Total Other Liabilities	$ 375	$ 3,487	$ 3,862

NOTE 15 – OPERATING LEASES

OFHEO has an occupancy lease with the Office of Thrift Supervision (OTS) at 1700 G Street NW, Washington DC that covers office space and building services which include utilities, security guards, janitorial services, mail delivery, use of the loading dock, garage parking and building operation and maintenance. The initial term of the lease was for five years beginning in 1993, with the option to renew for three 5-year terms. OFHEO has exercised the second of the three option terms.

OFHEO may terminate the lease agreement with OTS in whole or in part. In the event of a termination at OFHEO's discretion, OFHEO would be required to pay two months rent. If either party ceases to exist or merges with another entity by operation of law, either party may terminate the rental agreement. In the event of termination under this provision, neither party is liable for further costs, fees, damages or other monies due to the termination, except for payments through the date of termination. Due to this termination clause, no deferred rent is established for this lease nor is disclosure of minimum future lease payments required under Financial Accounting Standard Board Statement #13. If OFHEO continues renting up to the expiration date of its current option term ending November 2008, lease payments for fiscal year 2008 are estimated to be $4.4 million.

In FY 2005, OFHEO obtained additional rental space at 1750 Pennsylvania Avenue NW, Washington DC through a private sector sublessor. The expiration date of the lease is March 30, 2011. If the primary lease would terminate earlier than the expiration date, the sublease would then also terminate. A deferred rent liability is established for this lease.

Under existing commitments, the future minimum lease payments through FY 2011 are as follows:

Period Ending September 30, 2007	1750 Penn Ave NW (In Millions)
2008	.9
2009	.9
2010	1.0
2011	.5
Total Future Minimum Lease Payments	3.3

Note: Lease runs through March, 2011.

Total rent expense on the two leases for the years ended September 30, 2007 and 2006 was approximately $5.1 million and $4.9 million, respectively.

NOTE 16 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

Some of HUD's programs, principally those operated through FHA and Ginnie Mae, enter into financial arrangements with off-balance sheet risk in the normal course of their operations.

A. FHA Mortgage Insurance

Unamortized insurance in force outstanding for FHA's mortgage insurance programs as of September 30, 2007 and 2006 was $ 400 billion and $396 billion, respectively and is discussed in Note 7F.

B. Ginnie Mae Mortgage-Backed Securities

Ginnie Mae financial instruments with off-balance sheet risk include guarantees of Mortgage-Backed Securities (MBS) and commitments to guaranty MBS. The securities are backed by pools of FHA-insured, RHS-insured, and VA-guaranteed mortgage loans. Ginnie Mae is exposed to credit loss in the event of non-performance by other parties to the financial instruments. The total amount of Ginnie Mae guaranteed securities outstanding at September 30, 2007 and 2006, was approximately $427.6 billion and $410 billion, respectively. However, Ginnie Mae's potential loss is considerably less because the FHA and RHS insurance and VA guaranty serve to indemnify Ginnie Mae for most losses. Also, as a result of the structure of the security, Ginnie Mae bears no interest rate or liquidity risk.

During the mortgage closing period and prior to granting its guaranty, Ginnie Mae enters into commitments to guaranty MBS. The commitment ends when the MBS are issued or when the commitment period expires. Ginnie Mae's risks related to outstanding commitments are much less than for outstanding securities due, in part, to Ginnie Mae's ability to limit commitment authority granted to individual issuers of MBS. Outstanding commitments as of September 30, 2007 and 2006 were $35.8 billion and $22.8 billion, respectively. Generally, Ginnie Mae's MBS pools are diversified among issuers and geographic areas. No significant geographic concentrations of credit risk exist; however, to a limited extent, securities are concentrated among issuers.

In fiscal 2007 and 2006, Ginnie Mae issued a total of $32.7 billion and $23.8 billion respectively in its REMIC multi-class securities program. The estimated outstanding balance for the complete multi-class securities program (REMICs, Platinum's, etc.) at September 30, 2007 and 2006, were $201 billion and $198.7 billion, respectively. These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS program.

C. Section 108 Loan Guarantees

Under HUD's Section 108 Loan Guarantee program, recipients of CDBG Entitlement Grant program funds may pledge future grant funds as collateral for loans guaranteed by HUD (these loans were provided from private lenders since July 1, 1986). This Loan Guarantee Program provides entitlement communities with a source of financing for projects that are too large to be financed from annual grants. The amount of loan guarantees outstanding as of September 30, 2007 and 2006 was $2.3 billion and $2.4 billion, respectively. HUD's management believes its exposure in providing these loan guarantees is limited, since loan repayments can be offset from future CDBG Entitlement Program Funds and, if necessary, other funds provided to the recipient by HUD. HUD has never had a loss under this program since its inception in 1974.

NOTE 17 - CONTINGENCIES

Lawsuits and Other

HUD is party to a number of claims and tort actions related to lawsuits brought against it concerning the implementation or operation of its various programs. One group of related cases challenges the legality of actions the Department took in accordance with laws aimed at preserving rental housing units for low-income tenants. The cases within this group are in various stages of the litigation process and have been ongoing for a number of years. The general likelihood of an overall unfavorable outcome, at the group level, has been determined to be probable, with the exception of one case which a loss is believed reasonably possible. The potential loss related to these cases cannot be accurately estimated at this time and; therefore, the Department has not accrued a liability in connection with the cases. Final settlement on one related case occurred during FY 2006 and HUD accrued a liability of $965,000 in connection with this settlement. Final payment was made from the Treasury Department's Judgment Fund. No additional related cases were settled in FY 2007.

In other unrelated cases where the likelihood of unfavorable outcome is determined to be probable, the Department estimates that the range of losses could be between $5 million and $20 million. HUD accrued a liability of $5 million in FY 2006 for these cases.

During FY 2007 FHA recognized $11 million as a contingent liability due to probable, or likely, adverse judgments. No additional contingent liability accruals were recorded in FY 2007.

However, there are two FHA cases where judgment against FHA is considered reasonably possible with an estimated potential loss of $3 million.

Two FHA cases were settled in FY 2007 and recorded by FHA. In one case $18,343,953 was paid from the Judgment Fund. The other case for $11,900,000 was paid from the FHA Insurance Fund.

In addition, a number of varying cases exists for differing sums. The Department has determined the likelihood of loss is remote and uncertain in amount; consequently, no contingent liabilities were accrued by the Department for these cases.

NOTE 18 – EARMARKED FUNDS

Earmarked funds are financed by specifically identified revenues and are required by statute to be used for designated activities or purposes.

Rental Housing Assistance Fund

The Housing and Urban Development Act of 1968 authorized the Secretary to establish a revolving fund into which rental collections in excess of the established basic rents for units in section 236 subsidized projects would be deposited. The Housing and Community Development Amendment of 1978 authorized the Secretary, subject to approval in appropriation acts, to transfer excess rent collections received after 1978 to the Troubled Projects Operating Subsidy program, renamed the Flexible Subsidy Fund. Prior to that time, collections were used for paying tax and utility increases in section 236 projects. The Housing and Community Development Act of 1980 amended the 1978 Act by authorizing the transfer of excess rent collections regardless of when collected.

All uncommitted balances of excess rental charges from the Rental Housing Assistance Fund as of June 30, 2005, and any collections made during fiscal year 2005 and all subsequent fiscal years, shall be transferred to the Flexible Subsidy Fund, as authorized by section 236(g) of the National Housing Act, as amended.

Flexible Subsidy

The Flexible Subsidy Fund assists financially troubled subsidized projects under certain FHA authorities. The subsidies are intended to prevent potential losses to the FHA fund resulting from project insolvency and to preserve these projects as a viable source of housing for low and moderate-income tenants. Priority was given with Federal insurance-in-force and then to those with mortgages that had been assigned to the Department.

Manufactured Housing Fees Trust Fund

The National Manufactured Housing Construction and Safety Standards Act of 1974, as amended by the Manufactured Housing Improvement Act of 2000, authorizes development and enforcement of appropriate standards for the construction, design, and performance of manufactured homes to assure their quality, durability, affordability, and safety.

Fees are charged to the manufacturers for each manufactured home transportable section produced and will be used to fund the costs of all authorized activities necessary for the consensus committee, HUD, and its agents to carry out all aspects of the manufactured housing legislation. Fees are deposited in a trust fund administered by the Department, a portion of the fee receipts are transferred to the salaries and expense account to defray the direct administrative expenses to the program.

This account also presents activities formerly shown under the Interstate Land Sales account which provides protection to the public with respect to purchases or leases of subdivision lots.

The fee receipts are permanently appropriated and have helped finance a portion of the direct administrative expenses incurred in program operations. Activities are initially financed via transfer from the Manufactured Housing General Fund. At year-end, the transferred funds are returned to the general fund.

Ginnie Mae

Ginnie Mae was created in 1968 through an amendment to the National Housing Act as a wholly-owned government corporation within the Department, and is administered by the Secretary of HUD and the President of Ginnie Mae. As such, Ginnie Mae is a self-financed government corporation and receives no funds from general tax revenues. Operations are financed by a variety of fees, such as guaranty, commitment, new issuer, handling, and transfer servicing fees, which are only to be used for Ginnie Mae’s legislatively authorized mission.

The following shows earmarked funds activity as of September 30, 2007 (dollars in millions):

	GNMA	Rental Housing Assistance	Flexible Subsidy	Manufactured Housing Fees Trust Fund	Manufactured Housing Fees Receipt Acct	Eliminations	Total Earmarked Funds
Balance Sheet							
Fund Balance w/Treasury	$ 4,433	$ 8	$ 66	$ 4	-	-	$ 4,511
Investments	8,789						8,789
Accounts Receivable	23		-			-	23
Loans Receivable			192				192
General Property, Plant and Equipment	16						16
Other	449						449
Total Assets	$ 13,710	$ 8	$ 258	$ 4	$ -	$ -	$ 13,980
Accounts Payable	$ 554	-	-	-	-	-	554
Loss Reserves	$ 536	-	$ -				536
Other Liabilities	-		$ -				-
Total Liabilities	$ 1,090	$ -	$ -	$ -	$ -	$ -	$ 1,090
Unexpended Appropriations	-	-	$ (376)	-	-	-	$ (376)
Cumulative Results of Operations	$ 12,620	8	634	4	-	-	13,266
Total Net Position	12,620	8	258	4	-	-	12,890
Total Liabilities and Net Position	$ 13,710	$ 8	$ 258	$ 4	$ -	$ -	$ 13,980
Statement of Net Cost For the Period Ended							
Gross Costs	$ 53	$ -	$ (9)	$ 7	$ -	$ 1	$ 52
Less Earned Revenues	(791)	(4)	(12)		(7)	-	(814)
Net Costs	$ (738)	$ (4)	$ (21)	$ 7	$ (7)	$ 1	$ (762)
Statement of Changes in Net Position for the Period Ended							
Net Position Beginning of Period	$ 11,882	$ 4	$ 237	$ 5	$ -	$ -	$ 12,128
							-
Appropriations Received	-	-	-	-	-	1	1
Appropriations Used							-
Transfers In/Out Without Reimbursement				6	(7)		(1)
Net Cost of Operations	738	4	21	(7)	7	(1)	762
Change in Net Position	738	4	21	(1)	-	-	762
Net Position End of Period	$ 12,620	$ 8	$ 258	$ 4	$ -	$ -	$ 12,890

The following shows earmarked funds activity as of September 30, 2006 (dollars in millions):

	GNMA	Rental Housing Assistance	Flexible Subsidy	Manufactured Housing Fees Trust Fund	Manufactured Housing Fees Receipt Acct	Eliminations	Total Earmarked Funds
Balance Sheet							
Fund Balance w/Treasury	$ 4,056	$ 4	$ 43	$ 5	$ -	-	$ 4,108
Investments	8,414						8,414
Accounts Receivable	24		-			$ -	24
Loans Receivable			198				198
General Property, Plant and Equipment	6						6
Other	392						392
Total Assets	$ 12,892	$ 4	$ 241	$ 5	$ -	$ -	$ 13,142
Accounts Payable	$ 37	$ -	-	$ -	-	$ -	37
Loss Reserves	534	-					534
Other Liabilities	439		$ 4				443
Total Liabilities	$ 1,010	$ -	$ 4	$ -	$ -	$ -	$ 1,014
Unexpended Appropriations	-	-	$ (376)	-	-	-	$ (376)
Cumulative Results of Operations	$ 11,882	4	613	5	-	-	12,504
Total Net Position	11,882	4	237	5	-	-	12,128
Total Liabilities and Net Position	$ 12,892	$ 4	$ 241	$ 5	$ -	$ -	$ 13,142
Statement of Net Cost For the Period Ended							
Gross Costs	$ 60	$ 11	$ (18)	$ -	$ -	$ (10)	$ 43
Less Earned Revenues	(849)	(5)	(20)		$ -	10	(864)
Net Costs	$ (789)	$ 6	$ (38)	$ -	$ -	$ -	$ (821)
Statement of Changes in Net Position for the Period Ended							
Net Position Beginning of Period	$ 11,093	$ 10	$ 199	$ 5	$ -	$ -	$ 11,307
							-
Appropriations Received	-	-	-	-	-	1	1
Appropriations Used							-
Transfers In/Out Without Reimbursement				9	(9)		-
Net Cost of Operations	789	(6)	38	(9)	9	(1)	820
Change in Net Position	789	(6)	38	-	-	-	821
Net Position End of Period	$ 11,882	$ 4	$ 237	$ 5	$ -	$ -	$ 12,128

NOTE 19 – INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

The data below shows HUD's intragovernmental costs and earned revenue separately from activity with the public. Intragovernmental transactions are exchange transactions made between two reporting entities within the Federal government. Intragovernmental costs are identified by the source of the goods and services; both the buyer and seller are Federal entities. Also note that there may be instances where the revenue may be classified as non-Federal if the goods or services are subsequently sold to the public. Public activity involves exchange transactions between the reporting entity and a non-Federal entity. The following shows HUD's intragovernmental costs and exchange revenue (dollars in millions):

2007	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	Home	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
Intragovernmental Costs	$425	$11	$82	$33	$15	$33	$164	$15	$188		$966
Public Costs	3,465	42	24,558	10,933	1,887	3,798	3,315	1,302	3,520		52,820
Total Costs	$3,890	$53	$24,640	$10,966	$1,902	$3,831	$3,479	$1,317	$3,708		$53,786
Intragovernmental Earned Revenue	($1,407)	($481)	$0	$0	$0	$0	$0	$0	$0		($1,888)
Public Earned Revenue	(114)	(310)						(419)	(21)		(864)
Total Earned Revenue	($1,521)	($791)	$0	$0	$0	$0	$0	($419)	($21)		($2,752)
Net Cost of Operations	$2,369	($738)	$24,640	$10,966	$1,902	$3,831	$3,479	$898	$3,687		$51,034

2006	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	Home	Operating Subsidies	Publicand Indian Housing Loansand Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
Intragovernmental Costs	$534	$11	$80	$30	$13	$36	$179	$22	$103		$1,008
Public Costs	(914)	49	23,747	5,063	1,840	3,564	3,387	1,257	3,770		41,763
Total Costs	($380)	$60	$23,827	$5,093	$1,853	$3,600	$3,566	$1,279	$3,873		$42,771
Intragovernmental Earned Revenue	($1,522)	($548)	$0	$0	$0	$0	$0	$0	($54)		($2,124)
Public Earned Revenue	(179)	(302)						(515)	(23)		(1,019)
Total Earned Revenue	($1,701)	($850)	$0	$0	$0	$0	$0	($515)	($77)		($3,143)
Net Cost of Operations	($2,081)	($790)	$23,827	$5,093	$1,853	$3,600	$3,566	$764	$3,796		$39,628

NOTE 20 - TOTAL COST AND EARNED REVENUE BY BUDGET FUNCTIONAL CLASSIFICATION

The following shows HUD's total cost and earned revenue by budget functional classification for fiscal year 2007 (dollars in millions):

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
Intragovernmental:			
Commerce and Housing Credit	$ 2	$ -	$ 2
Community and Regional			
Development	20	2	22
Income Security	496	(2)	494
Administration of Justice	-	-	-
Miscellaneous	-	-	-
Total Intragovernmental	$ 518	$ -	$ 518
With the Public:			
Commerce and Housing Credit	$ 4,328	$ (2,738)	$ 1,590
Community and Regional			
Development	11,195	-	11,195
Income Security	37,699	(14)	37,685
Administration of Justice	46	-	46
Miscellaneous	-	-	-
Total with the Public	$ 53,268	$ (2,752)	$ 50,516
TOTAL:			
Commerce and Housing Credit	$ 4,330	$ (2,738)	$ 1,592
Community and Regional	-	-	-
Development	11,215	2	11,217
Income Security	38,195	(16)	38,179
Administration of Justice	46	-	46
Miscellaneous	-	-	-
TOTAL:	$ 53,786	$ (2,752)	$ 51,034

The following shows HUD's total cost and earned revenue by budget functional classification for fiscal year 2006 (dollars in millions):

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
Intragovernmental:			
Commerce and Housing Credit	$ 8	$ -	$ 8
Community and Regional Development	(50)	(50)	(100)
Income Security	501	(4)	497
Administration of Justice	-	-	-
Miscellaneous	-	-	-
Total Intragovernmental	$ 459	$ (54)	$ 405
With the Public:			
Commerce and Housing Credit	$ 64	$ (3,075)	$ (3,011)
Community and Regional Development	5,382	-	5,382
Income Security	36,818	(14)	36,804
Administration of Justice	48	-	48
Miscellaneous	-	-	-
Total with the Public	$ 42,312	$ (3,089)	$ 39,223
TOTAL:			
Commerce and Housing Credit	$ 72	$ (3,075)	$ (3,003)
Community and Regional	-	-	
Development	5,332	(50)	5,282
Income Security	37,319	(18)	37,301
Administration of Justice	48	-	48
Miscellaneous	-	-	-
TOTAL:	$ 42,771	$ (3,143)	$ 39,628

NOTE 21 – NET COSTS of HUD's CROSS-CUTTING PROGRAMS

This footnote provides a categorization of net costs for two of HUD's major program areas whose costs were incurred across multiple programs. Section 8 costs are incurred to assist low- and very low- income families in obtaining decent and safe rental housing. In addition, costs incurred under the Other major program represent HUD's smaller programs. These programs provide assistance to support other HUD objectives such as fair housing and equal opportunity, energy conversation, homeless assistance, housing units rehabilitation, and home ownership.

This following shows the cross-cutting of HUD's major program areas that incur costs across multiple program areas (dollars in millions):

Fiscal Year 2007

HUD's Cross-Cutting Programs	Public and Indian Housing	Housing	Community Planning and Development	Other	Consolidated
Section 8:					
Intragovernmental Gross Costs	$ 61	$ 22	$ -	$ -	$ 83
Intragovernmental Earned Revenues	-	-	-	-	$ -
Intragovernmental Net Costs	$ 61	$ 22	$ -	$ -	$ 83
Gross Costs with the Public	$ 21,648	$ 2,909	$ -	$ -	$ 24,557
Earned Revenues	-	-	-	-	$ -
Net Costs with the Public	$ 21,648	$ 2,909	$ -	$ -	$ 24,557
Net Program Costs	$ 21,709	$ 2,931	$ -	$ -	$ 24,640
Other:					
Intragovernmental Gross Costs	$ 28	$ 40	$ 48	$ 59	$ 175
Intragovernmental Earned Revenues	5	-	(5)	0	-
Intragovernmental Net Costs	$ 33	$ 40	$ 43	$ 59	$ 175
Gross Costs with the Public	$ 569	$ 622	$ 1,812	$ 198	$ 3,201
Earned Revenues	-	(21)	-	-	$ (21)
Net Costs with the Public	$ 569	$ 601	$ 1,812	$ 198	$ 3,180
Net Program Costs	$ 602	$ 641	$ 1,855	$ 257	$ 3,355

Fiscal Year 2006

HUD's Cross-Cutting Programs	Public and Indian Housing	Housing	Community Planning and Development	Other	Consolidated
Section 8:					
Intragovernmental Gross Costs	$ 57	$ 23	$ -	$ -	$ 80
Intragovernmental Earned Revenues	-	-	-	-	$ -
Intragovernmental Net Costs	$ 57	$ 23	$ -	$ -	$ 80
Gross Costs with the Public	$ 18,138	$ 5,593	$ 16	$ -	$ 23,747
Earned Revenues	-	-	-	-	$ -
Net Costs with the Public	$ 18,138	$ 5,593	$ 16	$ -	$ 23,747
Net Program Costs	$ 18,195	$ 5,616	$ 16	$ -	$ 23,827
Other:					
Intragovernmental Gross Costs	$ 27	$ 43	$ 44	$ (15)	$ 99
Intragovernmental Earned Revenues	(46)	-	(4)	(4)	(54)
Intragovernmental Net Costs	$ (19)	$ 43	$ 40	$ (19)	$ 45
Gross Costs with the Public	$ 653	$ 619	$ 1,800	$ 701	$ 3,773
Earned Revenues	-	(23)	-	-	$ (23)
Net Costs with the Public	$ 653	$ 596	$ 1,800	$ 701	$ 3,750
Net Program Costs	$ 634	$ 639	$ 1,840	$ 682	$ 3,795

NOTE 22 – FHA NET COSTS

FHA organizes its operations into two overall program types: MMI/CMHI and GI/SRI. These program types are composed of four major funds. The Mutual Mortgage Insurance fund (MMI), FHA's largest fund, provides basic Single Family mortgage insurance and is a mutual insurance fund, whereby mortgagors, upon non-claim termination of their mortgages, share surplus premiums paid into the MMI fund that are not required for operating expenses and losses or to build equity. The Cooperative Management Housing Insurance fund (CMHI), another mutual fund, provides mortgage insurance for management-type cooperatives. The General Insurance fund (GI), provides a large number of specialized mortgage insurance activities, including insurance of loans for property improvements, cooperatives, condominiums, housing for the elderly, land development, group practice medical facilities and nonprofit hospitals. The Special Risk Insurance fund (SRI) provides mortgage insurance on behalf of mortgagors eligible for interest reduction payments who otherwise would not be eligible for mortgage insurance.

The following table shows Net Costs detail for the Federal Housing Administration (dollars in millions):

	Fiscal Year 2007			Fiscal Year 2006		
	GI/SRI Program	MMI/CMHI Program	Total	GI/SRI Program	MMI/CMHI Program	Total
Costs						
Intragovernmental Gross Costs	$ 141	$ 284	$ 425	$ 147	$ 387	$ 534
Intragovernmental Earned Revenues	(107)	(1,299)	(1,406)	(188)	(1,334)	(1,522)
Intragovernmental Net Costs	$ 34	$ (1,015)	$ (981)	$ (41)	$ (947)	$ (988)
Gross Costs with the Public	$ (1,235)	$ 4,700	$ 3,465	$ (2,049)	$ 1,135	$ (914)
Earned Revenues	(90)	(25)	(115)	(85)	(94)	(179)
Net Costs with the Public	$ (1,325)	$ 4,675	$ 3,350	$ (2,134)	$ 1,041	$ (1,093)
Net Program Costs	$ (1,291)	$ 3,660	$ 2,369	$ (2,175)	$ 94	$ (2,081)

NOTE 23 – COMMITMENTS UNDER HUD'S GRANT, SUBSIDY, AND LOAN PROGRAMS

A. Contractual Commitments

HUD has entered into extensive long-term contractual commitments under its various grant, subsidy and loan programs. These commitments consist of legally binding agreements the Department has entered into to provide grants, subsidies, or loans. Commitments become liabilities when all actions required for payment under an agreement have occurred. The mechanism for funding subsidy commitments generally differs depending on whether the agreements were entered into before or after 1988.

Prior to fiscal 1988, HUD's subsidy programs, primarily the Section 8 program and the Section 235/236 programs, operated under contract authority. Each year, Congress provided HUD the authority to enter into multiyear contracts within annual and total contract limitation ceilings. HUD then drew on and continues to draw on permanent indefinite appropriations to fund the current year's portion of those multiyear contracts. Because of the duration of these contracts (up to 40 years), significant authority exists to draw on the permanent indefinite appropriations. Beginning in fiscal 1988, the Section 8 and the Section 235/236 programs began operating under multiyear budget authority whereby the Congress appropriates the funds "up-front" for the entire contract term in the initial year.

As shown below, appropriations to fund a substantial portion of these commitments will be provided through permanent indefinite authority. These commitments relate primarily to the Section 8 program, and the Section 235/236 rental assistance and interest reduction programs, and are explained in greater detail below.

HUD's commitment balances are based on the amount of unliquidated obligations recorded in HUD's accounting records with no provision for changes in future eligibility, and thus are equal to the maximum amounts available under existing agreements and contracts. Unexpended appropriations and cumulative results of operations shown in the Consolidated Balance Sheet comprise funds in the U.S. Treasury available to fund existing commitments that were provided through "up-front" appropriations, and also include permanent indefinite appropriations received in excess of amounts used to fund the pre-1988 subsidy contracts and offsetting collections.

FHA enters into long-term contracts for both program and administrative services. FHA funds these contractual obligations through appropriations, permanent indefinite authority, and offsetting collections. The appropriated funds are primarily used to support administrative contract expenses, while the permanent indefinite authority and the offsetting collections are used for program services.

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2007 (dollars in millions):

	Undelivered Orders			
Programs	Unexpended Appropriations	Permanent Indefinite or Investment Authority	Offsetting Collection	Undelivered Orders - Obligations, Unpaid
FHA	$ 167	$ 331	$ 751	$ 1,249
GNMA	-	-	-	-
Section 8 Rental Assistance	4,599	9,465	-	14,064
Community Development Block Grants	19,701	-	-	19,701
HOME Partnership Investment Program	5,359	-	-	5,359
Operating Subsidies	908	-	-	908
Low Rent Public Housing Grants and Loans	7,422	1,576	-	8,998
Housing for Elderly and Disabled	5,070	-	-	5,070
Section 235/236	340	4,631	-	4,971
All Other	5,087	2	63	5,152
Total	$ 48,653	$ 16,005	$ 814	$ 65,472

Of the total Section 8 Rental Assistance contractual commitments as of September 30, 2007, $12.3 billion relates to project-based commitments, and $1.8 billion relates to tenant-based commitments.

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2006 (dollars in millions):

	Undelivered Orders			
Programs	Unexpended Appropriations	Permanent Indefinite or Investment Authority	Offsetting Collection	Undelivered Orders - Obligations, Unpaid
FHA	$ 180	$ 370	$ 771	$ 1,321
GNMA	-	-	-	-
Section 8 Rental Assistance	7,567	9,411	-	16,978
Community Development Block Grants	21,368	-	-	21,368
HOME Partnership Investment Program	5,523	-	-	5,523
Operating Subsidies	795	-	-	795
Low Rent Public Housing Grants and Loans	7,879	1,582	-	9,461
Housing for Elderly and Disabled	5,374	-	-	5,374
Section 235/236	429	5,370	-	5,799
All Other	5,670	2	64	5,736
Total	$ 54,785	$ 16,735	$ 835	$ 72,355

Of the total Section 8 Rental Assistance contractual commitments as of September 30, 2006**,** $15.1 billion relates to project-based commitments, and $1.9 billion relates to tenant-based commitments. With the exception of the Housing for the Elderly and Disabled and Low Rent Public Housing Loan Programs (which have been converted to grant programs), Section 235/236, and a portion of "all other" programs, HUD management expects all of the above programs to continue to incur new commitments under authority granted by Congress in future years. However, estimated future commitments under such new authority are not included in the amounts above.

B. Administrative Commitments

In addition to the above contractual commitments, HUD has entered into administrative commitments which are reservations of funds for specific projects (including those for which a contract has not yet been executed) to obligate all or part of those funds. Administrative commitments become contractual commitments upon contract execution.

The following shows HUD's administrative commitments as of September 30, 2007 (dollars in millions):

	Reservations			
Programs	Unexpended Appropriations	Permanent Indefinite Appropriations	Offsetting Collections	Total Reservations
Section 8 Rental Assistance Project-Based	$ 124	$ 39	-	$ 163
Community Development Block Grants	745	-	-	745
HOME Partnership Investment Program	286	-	-	286
Low Rent Public Housing Grants and Loans	61	-	-	61
Housing for Elderly and Disabled	912	-	-	912
Section 235/236	-	25		25
All Other	586	-	$ 1	587
Total	$ 2,714	$ 64	$ 1	$ 2,779

The following shows HUD's administrative commitments as of September 30, 2006 (dollars in millions):

	Reservations			
Programs	Unexpended Appropriations	Permanent Indefinite Appropriations	Offsetting Collections	Total Reservations
Section 8 Rental Assistance Project-Based	$ 14	$ 8	-	$ 22
Community Development Block Grants	1,005	-	-	1,005
HOME Partnership Investment Program	234	-	-	234
Low Rent Public Housing Grants and Loans	113	-	-	113
Housing for Elderly and Disabled	921	-	-	921
Section 235/236	-	12		12
All Other	602	-	$ 4	606
Total	$ 2,889	$ 20	$ 4	$ 2,913

NOTE 24 – EFFECTS of HURRICANES KATRINA, RITA, and WILMA

At the end of fiscal year 2005 the damage assessments for hurricane Katrina were not complete and there was not sufficient information for FHA to reasonably estimate the losses or predict the liability. This was subsequently addressed during the preparation of the fiscal year 2007 budget, at which time OMB included additional liability estimates for hurricane Katrina. These additional amounts were apportioned by OMB and recorded by FHA during fiscal year 2006. This adjustment resulted in an additional $250 million added to the GI/SRI re-estimate and an additional $1.1 billion added to the MMI/CMHI re-estimate, which was combined with current year cost estimates for the MMI and GI/SRI funds to provide for the total liability to the LLG and LLR of $3.5 billion.

Single Family Hurricane Cost

FHA evaluated all open default cases from the hurricane – impacted areas as of August 31, 2007. The various status categories found for these default cases was used to estimate number of claims and cost fro each category. Based on the above methodology, FHA estimated 2,548 total claims (including failed loss mitigation actions) with an unpaid principal balance of $203.1 million. FHA program offices estimate a 62 percent loss rate for these properties, which is higher than the normal loss rate of 36 percent in the national portfolio. The 62 percent loss rate was taken from the pool of not-for-profit sales in the MMI fund in fiscal year 2006. Based on the above methodology and assumptions the estimated net present value hurricane cost is $139 million.

Multifamily Hurricane Cost

Impacted properties included in the Multifamily hurricane cost estimate were determined from physical inspections conducted by FHA's Office of Multifamily Housing Programs. During fiscal year 2007, it was determined no additional Multifamily liabilities related to Hurricane Katrina were required.

Ginnie Mae guarantees to advance payments of principal and interest on Mortgage Backed Securities (MBS) when the issuer of the pooled mortgages behind the MBS's defaults. Ginnie Mae files the claims for loans defaulted within the defaulted issuer's portfolio to FHA, VA, or RHS. Ginnie Mae has not incurred any losses due to date and does not expect any material future losses.

The Department will provide transitional housing assistance to displaced public housing residents, displaced Section 8 participants, displaced families from other HUD assisted programs, and individuals who were homeless in the disaster affected area prior to Katrina.

The effects of Hurricanes Katrina, Rita, and Wilma in 2005 also resulted in increased funding for the Department for assisting in meeting housing needs of those displaced by the disaster. The following shows the status of budgetary resources information for HUDs programs funded to support disaster relief as of September 30, 2007 (dollars in millions):

	CDBG	Tenant-Based Rental Assistance	Prevention of Resident Displacement	Total
Budgetary Resources				
Unobligated Balance, beginning of period	$5,256	$258	$7	$5,521
Recoveries	-	-	6	6
Budget Authority	-	-		-
Spending Authority from Offsetting Collections	-	-	(10)	(10)
Total Budgetary Resources	$5,256	$258	$3	$5,517
Status of Budgetary Resources				
Obligations Incurred	$5,256	$258	$0	$5,514
Unobligated Balance, available	-	-	1	1
Unobligated Balance, not available	-	-	2	2
Total Status of Budgetary Resources	$5,256	$258	$3	$5,517
Change in Obligated Balance				
Obligated Balance, net beginning of period	11,337	22	$1	$11,360
Obligations Incurred	$5,256	$258	-	5,514
Gross Outlays	(6,064)	(175)	7	(6,232)
Recoveries	-	-	(6)	(6)
Obligated Balance, net end of period	$10,529	$105	$2	$10,636
Net Outlays	6,064	175	3	6,242

The data below displays cumulative activity by state from program inception. The major recipients are listed individually and the remaining states are grouped together and listed as "other". The obligations incurred and gross outlays shown above represents fiscal year activity. Dollars are in millions.

	Obligations	Outlays	Unliquidated
Florida	184	$2	$182
Louisiana	10,600	4,651	$5,949
Mississippi	5,525	1,669	$3,856
Texas	638	114	$524
Other	150	50	$100
Total	$17,097	$6,486	$10,611

The following shows the status of budgetary resources information for HUDs programs funded to support disaster relief as of September 30, 2006 (dollars in millions):

Budgetary Resources				
Unobligated Balance, beginning of period	-	-	$69	$69
Recoveries	-	-	-	-
Budget Authority	$16,673	$390		17,063
Spending Authority from Offsetting Collections	-	-	(26)	(26)
Total Budgetary Resources	$16,673	$390	$43	$17,106
Status of Budgetary Resources				
Obligations Incurred	$11,417	$132	$36	$11,585
Unobligated Balance, available	5,256	258	7	5,521
Unobligated Balance, not available	-	-	-	-
Total Status of Budgetary Resources	$16,673	$390	$43	$17,106
Change in Obligated Balance				
Obligated Balance, net beginning of period	-	-	$10	$10
Obligations Incurred	$11,417	$132	36	11,585
Gross Outlays	(80)	(110)	(45)	(235)
Recoveries	-	-	-	-
Obligated Balance, net end of period	$11,337	$22	$1	$11,360
Net Outlays	80	110	71	261

The data below displays cumulative activity by state from program inception. The major recipients are listed individually and the remaining states are grouped together and listed as "other". The obligations incurred and gross outlays shown above represents fiscal year activity. Dollars are in millions.

	Obligations	Outlays	Unliquidated
Alabama	$73	$1	$72
Georgia	$19	$18	$1
Louisiana	6,260	91	6,169
Mississippi	5,080	53	5,027
Texas	145	63	82
Other	12	7	5
Total	$11,589	$233	$11,356

NOTE 25 – APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

Budgetary resources are usually distributed in an account or fund by specific time periods, activities, projects, objects, or a combination of these categories. Resources apportioned by fiscal quarters are classified as Category A apportionments. Apportionments by any other category would be classified as Category B apportionments. HUD's categories of obligations incurred were as follows (dollars in millions):

	Category A	Category B	Exempt From Apportioment	Total
2007				
Direct	$ 1,265	$ 57,674	$ -	$ 58,939
Reimbursable	11	318	-	329
	$ 1,276	$ 57,992	$ -	$ 59,268
2006				
Direct	$ 1,319	$ 61,827	$ -	$ 63,146
Reimbursable	-	100	-	100
	$ 1,319	$ 61,927	$ -	$ 63,246

NOTE 26 – EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE UNITED STATES GOVERNMENT

The President's Budget containing actual FY 2007 data is not available for comparison to the Statement of Budgetary Resources. Actual FY 2007 data will be available in the Analytical Perspectives section of the Budget of the United States Government, fiscal year 2008.

For fiscal year 2006, an analysis to compare HUD's Statement of Budgetary Resources to the President's Budget of the United States was performed to identify any differences.

The following shows the difference between Budgetary Resources reported in the Statement of Budgetary Resources and the President's Budget for fiscal year 2006 (dollars in millions):

	Budgetary Resources	Obligations Incurred	Net Outlays
Combined Statement of Budgetary Resources	$118,872	$63,246	$39,855
Difference #1 - Offsettig receipts	0	0	717
Difference #2 - Resources related to HUD's expired accounts not reported in the President's Budget	(481)	(87)	0
Difference #3 - Rounding	(4)	3	2
Difference #4 - Tranfer of negative subsidy to GNMA Reserve Receipt account	177	177	0
Difference #5 - Adjustment of GNMA's Financing and Liquidating accounts FY 2006 ending balances	(3)	0	0
SF 133, Report on Budget Execution and Budgetary Resources	$118,561	$63,339	$40,574

NOTE 27 – RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

	2007	2006
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$59,267	$63,246
Spending Authority from Offsetting Collections and Recoveries	(16,630)	(19,076)
Obligations Net of Offsetting Collections	$42,637	$44,170
Offsetting Receipts	(2,808)	(717)
Net Obligations	$39,829	$43,453
Other Resources		
Transfers In/Out Without Reimbursement	($843)	($1,867)
Imputed Financing from Costs Absorbed by Others	96	79
Other Resources	(10)	(8)
Net Other Resources Used to Finance Activites	($757)	($1,796)
Total Resources Used to Finance Activities	$39,072	$41,657
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods/Services/Benefits Ordered but not Provided	$6,904	($3,664)
Credit Program Resources not Included in Net Cost (Surplus) of Operations	14,067	14,632
Other Changes to Net Obligated Resources Not Affecting Net Cost of Operations	(11,582)	(11,037)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$9,389	($69)
Total Resources Used to Finance the Net Cost of Operations	$48,461	$41,588
Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period		
Upward/Downward Reestimates of Credit Subsidy Expense	$4,041	$406
Increase in Exchange Revenue Receivable from the Public	(429)	(518)
Change in Loan Loss Reserve	(127)	(739)
Changes in Bad Debt Expenses Related to Credit Reform Receivables	(9)	(5)
Ruduction of Credit Subsidy Expense from Guarantee Endorsements and Modifications	(1,032)	(1,380)
Other	130	276
Total Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period	2,574	($1,960)
Net Cost of Operations	$51,035	$39,628

In FY 2007, the department reported a net increase in unfunded annual leave liability in the amount of $2 million. This unfunded leave liability is not covered by budgetary resources at the balance sheet date.

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Required Supplementary Stewardship Information

INTRODUCTION

This section provides information on resources entrusted to HUD that do not meet the criteria for information required to be reported or audited in HUD's financial statements but are, nonetheless, important to understand HUD's operations and financial conditions. The stewardship objective requires that HUD report on the broad outcomes of its actions associated with these resources. Such reporting will provide information that will help report users assess the impact of HUD's operations and activities.

HUD's stewardship reporting responsibilities extend to the investments made by a number of HUD programs in Non-Federal Physical Property, Human Capital, and Research and Development. Due to the relative immateriality of the calculations and in the application of the related administrative costs, most of the amounts reported below reflect direct program costs only. The investments addressed in this section are attributable to programs administered through the following divisions/departments:

- Community Planning and Development (CPD),
- Public and Indian Housing (PIH),
- Policy Development and Research (PD&R), and
- Healthy Homes and Lead Hazard Control (HHLHC).

OVERVIEW OF HUD'S MAJOR PROGRAMS

CPD seeks to develop viable communities by promoting integrated approaches that provide decent housing, a suitable living environment, and expanded economic opportunities for low and moderate-income persons. HUD makes stewardship investments through the following CPD programs:

- Community Development Block Grants (CDBG) are provided to State and local communities, which use these funds to support a wide variety of community development activities within their jurisdiction. These activities are designed to benefit low and moderate-income persons, aid in the prevention of slums and blight, and meet other urgent community development needs. State and local communities use the funds as they deem necessary, as long as the use of these funds meet at least one of these objectives. A portion of the funds supports the acquisition or rehabilitation of property owned by State and local governments, while other funds help to provide employment and job training to low and moderate-income persons.
- Disaster Grants help State and local governments recover from major natural disasters. A portion of these funds can be used to acquire, rehabilitate or demolish physical property.
- Housing Investment Partnership (HOME) provides formula grants to States and localities (used often in partnership with local nonprofit groups) to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for low-income persons.
- YouthBuild grants assist young individuals to obtain education, employment skills, and meaningful work experience in construction trade, enabling them to become more productive and self-sufficient.

PIH ensures safe, decent, and affordable housing, creates opportunities for residents' self-sufficiency and economic independence, and assures the fiscal integrity of all program participants. HUD makes stewardship investments through the following PIH programs:

- The Public Housing (PH) Capital Fund provides grants to Public Housing Agencies (PHAs) to improve the physical conditions and to upgrade the management and operation of existing public housing.
- HOPE VI Revitalization Grants (HOPE VI) are provided to PHAs, to support the improvement of the living environment of public housing residents in distressed public housing units. Some investments support the acquisition or rehabilitation of PHA-owned property, while others help to provide education and job training to residents of the communities targeted for rehabilitation.
- Indian Housing Block Grants (IHBG) provides funds needed to allow tribal housing organizations to maintain existing units and to begin development of new units to meet their critical long-term housing needs.
- Indian Community Development Block Grants (ICDBG) provides funds to Indian organizations to develop viable communities, including decent housing, a suitable living environment, and economic opportunities, principally for low and moderate-income recipients.
- The Public Housing Drug Elimination Program (PHDEP) seeks to eliminate drug-related crime and activities in Public and Indian housing communities. A portion of these funds is used to improve properties owned by the PHAs and thus increase security and prevent crime at the properties. Congress has terminated funding for this program after fiscal year 2001.

PD&R's stewardship responsibilities include maintaining current information to monitor housing needs and housing market conditions, and to support and conduct research on priority housing and community development issues.

HUD makes stewardship investments through the following programs:

- Community Development Work Study (CDWS): Colleges and universities throughout the United Sates use this program to offer financial aid and work experience to students enrolled in a full-time graduate program in community development or a closely related field such as urban planning, public policy, or public administration.
- Partnership for Advancing Technology in Housing (PATH) is a public/private sector initiative which seeks to expand the development and utilization of new technologies in order to make American homes stronger, safer, and more durable; more energy efficient and environmentally friendly; easier to maintain and less costly to operate; and more comfortable and exciting to live in. PATH links key agencies in the federal government with leaders from the home building, product manufacturing, insurance, financial, and regulatory communities in a unique partnership focused on technological innovation in the American housing industry.

The **HHLHC** program seeks to eliminate childhood lead poisoning caused by lead-based paint hazards and to address other children's disease and injuries, such as asthma, unintentional injury, and carbon monoxide poisoning, caused by substandard housing conditions.

- Lead Technical Assistance Division, in support of the departmental lead hazard control program, establishes and coordinates lead-based paint regulations and policy, and supports compliance assistance and enforcement. These programs also support technical assistance and the conduct of technical studies and demonstrations to identify innovative methods to create lead-safe housing at reduced cost. In addition, these programs are designed to increase the awareness of lead professionals, parents, building owners, housing and public health professionals, and others with respect to lead-based paint and related property-based health issues.

RSSI REPORTING - HUD'S MAJOR PROGRAMS

Non-Federal Physical Property

Investment in Non-Federal Physical Property: Non-Federal physical property investments support the purchase, construction, or major renovation of physical property owned by state and local governments. These investments support HUD's strategic goals, which are to increase the availability of decent, safe, and affordable housing in America communities; improve community quality of life and economic vitality; and ensure public trust in HUD. The following table summarizes material program investments in Non-Federal Physical Property. Additional information regarding the following programs' contribution to HUD's goals may be found in Section II of this report.

Investments in Non-Federal Physical Property
Fiscal Year 2003 - 2007
(Dollars in millions)

Program	2003	2004	2005	2006	2007
CPD					
CDBG	$1,206	$1,193	$1,175	$1,170	$1,262
Disaster Grants(1)	$7	$114	$40	$299	$120
HOME	$33	$26	$44	$30	$38
PIH					
ICDBG	N/A	$58	$71	$68	$58
IHBG (2)	$732	$389	$311	$312	$247
HOPE VI (3)	$433	$127	$157	$72	$95
PH Capital Fund	$1,949	$1,758	$1,289	$1,340	$1,793
PHDEP (4)	$0	$0	$0	$0	$0
TOTAL	**$4,360**	**$3,665**	**$3,087**	**$3,290**	**$3,612**

Notes:

1. *Amount reported for fiscal year 2007 represents 9 months of data.*
2. *A restatement of amounts for 2003-2006 reflects the updated figures provided by IHBG Performance Tracking Database.*
3. *A restatement of amounts for 2003-2006 based on HOPE VI's grant funding awarded for the respective year.*
4. *Congress terminated funding for the PHDEP program after fiscal year 2001.*

Human Capital

Investment in Human Capital: Human Capital investments support education and training programs that are intended to increase or maintain national economic productive capacity. These investments support HUD's strategic goals, which are to promote self-sufficiency and asset development of families and individuals; improve community quality of life and economic vitality; and ensure public trust in HUD. The table on the next page summarizes material program investments in Human Capital, for fiscal years 2003 through 2007. Additional information regarding the following programs' contributions to HUD's goals may be found in Section II of this report.

Investments in Human Capital
Fiscal Year 2003 - 2007
(Dollars in millions)

INVESTMENT IN HUMAN CAPITAL					
Program	**2003**	**2004**	**2005**	**2006**	**2007**
CPD					
CDBG	$23	$26	$28	$4	$23
Youthbuild	$19	$21	$22	$22	$23
PIH					
HOPE VI (5)	$35	$10	$13	$6	$8
PD&R					
CDWS (6)	$3	$3	$3	$0	$0
OHHLHC					
Lead Technical Assistance (7)	$1	$0	$0	$0	$0
TOTAL	**$81**	**$60**	**$66**	**$31**	**$54**

Notes:

5. *A restatement of amounts for 2003-2006 based on HOPE VI's grant funding awarded for the respective year.*
6. *Congress did not fund the CDWS in FY 2007.*
7. *Congress did not fund the Lead Technical Assistance program in FY 2007.*

Results of Human Capital Investments: The following table presents the results of or output (number of people trained) of human capital investments made by HUD's CPD, PD&R, and HHLHC programs:

Results of Investments in Human Capital
Number of People Trained
Fiscal Year 2003 - 2007

Program	**2003**	**2004**	**2005**	**2006**	**2007**
CPD					
CDBG	172,416	131,653	122,578	79,833	52,277
Youthbuild	4,123	3,508	4,366	3,929	3,103
PIH					
Hope VI (*see table below*)					
PD&R					
CDWS (3)	95	99	108	0	0
OHHLHC					
Lead Technical Assistance (4)	0	0	0	0	0
TOTAL	**176,634**	**135,260**	**127,052**	**83,762**	**55,380**

HOPE VI Results of Investments in Human Capital: Since the inception of the HOPE VI program in fiscal year 1993, the program has made significant investments in Human Capital related initiatives (i.e., education and training). The following table presents HOPE VI's key cumulative performance information for fiscal years 2006 and 2007, since the program's inception.

Key Results of HOPE VI Program Activities
Fiscal Year 2006 and 2007

HOPE VI Service	2006 Enrolled	2006 Completed	% Completed	2007 Enrolled	2007 Completed	% Completed
Employment Preparation, Placement, & Retention	68,552	N/A	N/A	72,890	N/A	N/A
Job Skills Training Programs	26,837	14,091	53%	29,777	16,205	54%
High School Equivalent Education	14,293	3,907	27%	15,305	4,272	28%
Entrepreneurship Training	3,118	1,235	40%	3,229	1,304	40%
Homeownership Counseling	13,023	5,692	44%	14,252	6,533	46%

Research and Development

Investments in Research and Development: Research and development investments support (a) the search for new knowledge, and (b) the refinement and application of knowledge or ideas, pertaining to development of new or improved products or processes. Research and development investments are intended to increase economic productive capacity or yield other future benefits. As such, these investments support HUD's strategic goals, which are to increase the availability of decent, safe, and affordable housing in America communities; and ensure public trust in HUD. The following table summarizes HUD's research and development investments. Additional information regarding the following programs' contributions to HUD's goals may be found in Section II of this report.

Investments in Research and Development
Fiscal Year 2003 - 2007
(Dollars in millions)

Program	2003	2004	2005	2006	2007
PD&R					
PATH (8)	$8	$8	$8	$5	$0
OHHLHC					
Lead Hazard Control	$9	$6	$5	$11	$5
TOTAL	**$17**	**$14**	**$13**	**$16**	**$5**

Notes:

8. *PATH did not receive any appropriation in FY 2007.*

Results of Investments in Research and Development: At the end of fiscal year 2007, PATH program had over 165 updated technology listings in its technology inventory. During fiscal year 2007, PATH awarded one technology development project, one project providing information to builders and researchers, and one project which require demonstrations of the use of technologies.

In support of HUD's lead hazard control initiatives, the HHLHC program has conducted various studies. As indicated in the following table, such studies have contributed to an overall reduction in the per-housing unit cost of lead hazard evaluation and control efforts. These studies have also lead to the identification of the prevalence of related hazards.

Per-Housing Unit Cost of Lead Hazard Evaluation and Control
Fiscal Year 2003 – 2007

Program	2003	2004	2005	2006	2007
OHHLHC					
Lead Hazard Control (1)	$4,827	$4,577	$6,650	$4,926	$4,900
TOTAL	**$4,827**	**$4,577**	**$6,650**	**$4,926**	**$4,900**

Notes:

1. *The fiscal year 2007, 4th quarter per-housing unit cost is based on an extrapolation of fiscal year 2007, 1st – 3rd quarter data. OHHLHC anticipates that full year actual data, which becomes available the first week of November 2007, will show that the grant program will exceed its goal of making 10,500 units lead safe. As a result, OHHLHC anticipates a downward adjustment of the unit cost.*

Required Supplementary Information (Unaudited)

Intragovernmental Balances

HUD's Intragovernmental amounts represent transactions with other federal entities included in the government's annual report. These transactions include assets, liabilities and earned revenues as follows:

September 30, 2007 (dollars in millions):

Intragovernmental Assets:

Trading Partner	Fund Balance	Accounts Receivable	Investments	Other Assets	Total
Department of Treasury	$ 69,046	$ -	$ 31,270	$ -	$ 100,316
Department of Commerce	-	-	-	$ 1	$ 1
Department of Justice	-	-	-	7	$ 7
Total	$ 69,046	$ -	$ 31,270	$ 8	$ 100,324

Intragovernmental Liabilities:

Trading Partner	Accounts Payable	Debt	Other	Total
Department of Treasury	$ -	$ 5,459	$ 3,763	$ 9,222
General Service Administration	$ 5	$ -	$ -	5.00
Other Agencies	-	-	45	45
Total	-	$ 5,459	$ 3,808	$ 9,272

Intragovernmental Earned Revenues and Related Costs:

Trading Partner	Earned Revenue
Department of Treasury	$ 1,895
Other Agencies	(7)
Total	$ 1,888

Budget Functional Classification	Gross Cost to Generate Revenue
Commerce and Housing Credit	$ -
Community and Regional Dev	-
Income Security	-

September 30, 2006 (dollars in millions):

Intragovernmental Assets:

Trading Partner	Fund Balance	Accounts Receivable	Investments	Other Assets	Total
Department of Treasury	$ 81,395	$ -	$ 30,426	$ -	$ 111,821
Department of Commerce	-	-	-	$ 16	$ 16
Department of Justice	-	-	-	10	$ 10
Total	$ 81,395	$ -	$ 30,426	$ 26	$ 111,847

Intragovernmental Liabilities:

Trading Partner	Accounts Payable	Debt	Other	Total
Department of Treasury	$ -	$ 7,249	$ 2,643	$ 9,892
Other Agencies	-	-	27	27
Total	-	$ 7,249	$ 2,670	$ 9,919

Intragovernmental Earned Revenues and Related Costs:

Trading Partner	Earned Revenue
Department of Treasury	$ 2,075
Other Agencies	49
Total	$ 2,124

Budget Functional Classification	Gross Cost to Generate Revenue
Commerce and Housing Credit	$ -
Community and Regional Dev	-
Income Security	-
Total	$ -

U.S. Department of Housing and Urban Development
Office of Inspector General
451 7th St., S.W.
Washington, D.C. 20410-4500

INDEPENDENT AUDITOR'S REPORT[1]

To the Secretary,
U.S. Department of Housing and Urban Development:

In accordance with the Chief Financial Officers (CFO) Act of 1990, the Department has prepared the accompanying consolidated balance sheets of the Department of Housing and Urban Development (HUD) as of September 30, 2007 and 2006 and the related consolidated statements of net cost, changes in net position, and the combined statement of budgetary resources for the fiscal years then ended. We are required by the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994 and implemented by Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements,* to audit HUD's principal financial statements or select an independent auditor to do so. The objective of our audit was to express an opinion on the fair presentation of these principal financial statements. With respect to the fiscal years 2007 and 2006 financial statements, we did not audit the financial statements of the Federal Housing Administration (FHA) and the Government National Mortgage Association (Ginnie Mae) for the periods ending September 30, 2007 and 2006, whose statements reflected total assets constituting 46 and 41 percent, respectively, of the related consolidated totals. Other auditors, whose reports have been furnished to us, audited those statements and our opinion on the fiscal year 2007 and 2006 financial statements, insofar as it relates to the amounts included for FHA and Ginnie Mae as of September 30, 2007 and 2006, is based solely on the reports of the other auditors. In connection with our audit, we also considered HUD's internal control over financial reporting and tested HUD's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on its principal financial statements.

Opinion on the Fiscal Years 2007 and 2006 Financial Statements

In our opinion, based on our audit and the reports of other auditors, the accompanying fiscal years 2007 and 2006 principal financial statements present

[1] This report is supplemented by a separate report issued by HUD-OIG to provide a more detailed discussion of the internal control and compliance issues included in this report and to provide specific recommendations to HUD management. The report is available at the HUD, OIG Internet site at http://www.hud.gov/oig/oigindex.html and is titled: Additional Details to Supplement Our Report on HUD's Fiscal Years 2007 and 2006 Financial Statements (2008-FO-0003, dated November 14, 2007).

fairly, in all material respects, the financial position of HUD as of September 30, 2007 and 2006 and its net costs, changes in net position, and budgetary resources for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

The other auditors' and our audits also disclosed:

- Material weaknesses in internal controls in fiscal year 2007 related to the need to
  - Develop a risk assessment and systems development plan for FHA's Home Equity Conversion Mortgage (HECM) systems and transactions; and
  - Enhance the HECM credit subsidy cash flow model.

- Significant deficiencies in internal controls in fiscal year 2007 related to the need to
  - Comply with federal financial management systems requirements;
  - Continue improvements in the oversight and monitoring of subsidy calculations and intermediaries program performance;
  - Improve the budgeting and funds control process for Section 8 project-based contracts;
  - Improve the processes for reviewing obligation balances;
  - Further strengthen controls over HUD's computing environment;
  - Improve personnel security practices for access to the Department's critical financial systems;
  - Strengthen FHA system security controls; and
  - Improve Ginnie Mae's program compliance and controls regarding monitoring of issuers.

OMB Bulletin No. 07-04 requires that we report discrepancies between management and independent auditors regarding material weaknesses on internal control over reporting not disclosed in the Agency's Performance and Accountability Report. HUD and FHA disagreed with the assessment that the first two weaknesses in internal controls over financial reporting described above were material weaknesses. The Department and FHA reported no material weaknesses for their Federal Managers' Financial Integrity Act reporting in the Fiscal Year 2007 Performance and Accountability Report and the FHA Fiscal Year 2007 Annual Management Report, respectively.

Most of these control weaknesses were reported in prior efforts to audit HUD's financial statements and some represent long-standing problems. Our findings also include the following instance of non-compliance with applicable laws and regulations, and provisions of contract and grant agreements, that is required to be reported herein under *Government Auditing Standards* or OMB Bulletin 07-04.

- HUD did not substantially comply with the Federal Financial Management Improvement Act. In this regard, HUD's financial management systems did not substantially comply with Federal Financial Management Systems Requirements. In addition, FHA was not in full compliance with Federal Accounting Standards.

Consolidating Financial Information

We conducted our audit for the purpose of forming an opinion on the consolidated principal financial statements taken as a whole. HUD has presented consolidating balance sheets and related consolidating statements of net costs and changes in net position, and combining statements of budgetary resources as supplementary information in its *Fiscal Year 2007 Performance and Accountability Report.* The consolidating and combining financial information is presented for purposes of additional analysis of the financial statements rather than to present the financial position, changes in net position, budgetary resources, and net costs of HUD's major activities. The consolidating and combining financial information is not a required part of the principal financial statements. The fiscal years 2007 and 2006 financial information has been subjected to the auditing procedures applied to the principal financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Required Supplementary Information

In its *Fiscal Year* 2007 *Performance and Accountability Report*, HUD presents "Required Supplemental Stewardship Information," specifically, information on investments in non-Federal physical property and human capital. In addition, HUD presents a Management Discussion and Analysis of Operations. This information is not a required part of the basic financial statements but is supplementary information required by the Federal Accounting Standards Advisory Board and OMB Circular Number A-136. We did not audit and do not express an opinion on this information; however, we applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information.

Additional details on the other auditors' and our findings regarding HUD's internal controls are summarized below and were provided in separate reports to HUD management. These additional details also augment the discussions of the instance in which HUD had not complied with applicable laws and regulations, the information regarding our audit objectives, scope, and methodology, and recommendations to HUD management resulting from our audit.

Material Weaknesses

A Risk Assessment and Systems Development Plan Are Needed for FHA's HECM Systems and Transaction Controls. FHA maintains a number of different system platforms for processing HECM endorsements, premiums, claims and assigned notes. These systems are not automatically integrated and require significant compensating manual controls to ensure the accuracy and reliability of financial information being reported in the general ledger. They are neither compliant with federal loan financial management system requirements nor with federal information technology security requirements, including regulations for the safeguarding of personally identifiable information. The HECM program is growing rapidly, comprises almost 20 percent of the $905 million single family upfront premium collections and has resulted in over $500 million in HECM notes now assigned and being serviced by FHA. The balance of assigned notes is estimated by FHA to exceed $1 billion within one year. FHA's auditor believes this growth in a manually intensive control environment greatly increases the risk of material errors in financial reporting.

HECM Credit Subsidy Cash Flow Model Needs Enhancement. FHA has developed a cash flow model to estimate the net present value of future HECM cash flows, which is recorded as a Liability for Guaranteed Loans in the Principal Financial Statements. This model contains projected cash flows for premiums, pre-foreclosure sales claims, mortgage note assignments, terminations, post-assignment drawdowns and terminated loan note recoveries. FHA uses the limited historical experience available and management assumptions to calculate the conditional rates for most of these complex HECM loan events. FHA's auditor noted significant discrepancies between projected and actual program events, which may be caused by changes in interest rates and other external variables. FHA's auditor found management has not effectively documented its assessment of statistical correlations between these various macroeconomic variables that appear to be having a significant impact on the program's experience, including house price appreciation, short term interest rates, and borrower characteristics including gender, age, and mobility patterns due to the limited historical experience for the program. FHA also had not effectively documented its sensitivity analysis of the model and did not have an effective process to document its conclusions regarding the results of its validation review and what changes to the model are needed to improve the model's predictability.

FHA's auditor also found that the model contained improper calculations relating to terminated note recoveries and was not compliant with federal accounting standards regarding OMB discounting requirements for cash flow models for direct loan and loan guarantee programs. FHA has adjusted their financial statements to reflect the material adjustments to the related Liability for Guaranteed Loans caused by these errors.

Significant Deficiencies

HUD Financial Management Systems Need to Comply with Federal Financial Management System Requirements. As reported in prior years, HUD is not in full compliance with federal financial management requirements. Specifically, it has not completed development of an adequate integrated financial management system. HUD is required to implement a unified set of financial systems and the financial portions of mixed systems encompassing the software, hardware, personnel, processes (manual and automated), procedures, controls, and data necessary to carry out financial management functions, manage financial operations of the agency, and report on the agency's financial status to central agencies, Congress, and the public. As currently configured, HUD financial management systems do not meet the test of being unified. The Federal Financial System Integration Office defines "unified" as meaning that the systems are planned for and managed together, operated in an integrated fashion, and linked electronically to efficiently and effectively provide agency wide financial system support necessary to carry out the agency's mission and support the agency's financial management needs.

HUD Management Must Continue to Improve Oversight and Monitoring of Subsidy Calculations and Intermediaries' Program Performance. Since 1996, we have reported on weaknesses with the monitoring of the housing assistance programs' delivery and the verification of subsidy payments. We focused on the impact these weaknesses had on HUD's ability to (1) ensure intermediaries are correctly calculating housing subsidies and (2) verify tenant income and billings for subsidies. During the past several years, HUD has made progress in correcting this deficiency. However, HUD's continued commitment to the implementation of a comprehensive program to reduce erroneous payments will be essential to ensuring that HUD's intermediaries are properly carrying out their responsibility to administer assisted housing programs according to HUD requirements.

The Department has demonstrated improvements in its internal control structure to address the significant risk that HUD's intermediaries are not properly carrying out their responsibility to administer assisted housing programs according to HUD requirements. HUD's increased and improved monitoring has resulted in a significant decline in improper payment estimates over the last five years. However, HUD needs to continue to place emphasis on its on-site monitoring and technical assistance to ensure that acceptable levels of performance and compliance are achieved and periodically assess the accuracy of intermediaries rent determinations, tenant income verifications, and billings.

HUD Needs to Improve its Budgeting and Funds Control Over Section 8 Project-based Contracts. HUD's systems and controls for accounting, processing payments, monitoring, and budgeting for Section 8 project-based contracts need to be improved. HUD has been hampered in their ability to estimate funding requirements, process timely payments to project-based landlords, and to recapture excess funds in a timely manner. This is evidenced in HUD's long-term challenges in paying Section 8 project-based landlords on a timely basis and properly monitoring and accurately accounting and budgeting for contract renewals. These historic problems with the Section 8 project-based program were further exacerbated and highlighted in fiscal year 2007 due to a change in the interpretation of the contract language used in the Section 8 project-based renewal contracts and the movement of Section 8 project-based contracts from the HUDCAPS accounting system to the Program Accounting System.

HUD Needs to Improve Processes for Reviewing Obligation Balances. HUD needs to improve controls over the monitoring of obligation balances to ensure they remain needed and legally valid as of the end of the fiscal year. HUD's procedures for identifying and deobligating funds that are no longer needed to meet its obligations were not always effective. This has been a long-standing weakness. Our review of the 2007 year-end obligation balances showed $342.3 million in excess funds that could be recaptured. We have been reporting deficiencies in this area for several years and while HUD has been working to implement improved procedures and information systems, progress has been slow.

Controls over HUD's Computing Environment Can Be Further Strengthened. HUD's computing environment, data centers, networks, and servers provide critical support to all facets of the Department's programs, mortgage insurance, servicing, and administrative operations. In prior years, we reported on various weaknesses with general system controls and controls over certain applications, as well as weak security management. These deficiencies increase risks associated with safeguarding funds, property, and assets from waste, loss, unauthorized use, or misappropriation. We evaluated selected information system general controls of the Department's computer systems on which HUD's financial systems reside. Our review found information systems control weaknesses that could negatively affect the integrity, confidentiality, and availability of computerized data.

Weak Personnel Security Practices Continue to Pose Risks of Unauthorized Access to the Department's Critical Financial Systems. For several years, we have reported that HUD's personnel security practices over access to critical and sensitive systems have been inadequate. Various deficiencies in HUD's information technology personnel security program were found and recommendations were proposed to correct the problems noted. However, the risk of unauthorized access to HUD's financial systems remains a critical issue. OIG followed up on previously reported information technology personnel security weaknesses and deficiencies and found that deficiencies still exist.

FHA System Security Controls Need to be Strengthened. FHA has not yet implemented a federal information security risk management framework in accordance with federal standards. FHA's information system security officer did not have authority and processes in place to ensure FHA system security meets federal and Departmental requirements. FHA program offices and system owners also did not fully understand their system security responsibilities due to an ineffective organizational authority, insufficient staff resources, and inadequate security training. FHA has also not yet resolved a number of system vulnerabilities that result in weakened controls over financial system data.

Ginnie Mae Should Improve Programs Compliance and Controls Regarding Monitoring of Issuers. Ginnie Mae needs to strengthen monitoring in the Mortgage-Backed Securities (MBS) program. Improvements are needed to (1) assure more effective follow up of the automated matching process with insurer loan data, (2) ensure the risk for issuer default is minimized, and (3) provide for segregating incompatible duties in MBS's monitoring process from the issuer approval and other securities revenue production process.

Compliance with Laws and Regulations

HUD Did Not Substantially Comply with the Federal Financial Management Improvement Act. In its *Fiscal Year 2007 Performance and Accountability Report*, HUD reports that 2 of its 42 financial management systems do not comply with the requirements of the Federal Financial Management Improvement Act and OMB Circular A-127, *Financial Management Systems*. Even though 40 individual systems have been certified as compliant with federal financial management systems requirements, collectively and in the aggregate, deficiencies still exist.

FHA's auditor reported as a material weakness that *FHA's systems for processing Home Equity Conversion Mortgage transactions need improvement*. In addition we report as a significant deficiency that *HUD Financial Management Systems Need to Comply with Federal Financial Management Systems Requirements.* The material weakness and significant deficiency address how FHA and HUD's financial management systems remain substantially noncompliant with federal financial management requirements.

We continue to report as significant deficiencies that (1) *Controls over HUD's Computing Environment Can Be Further Strengthened and (2) Weak Personnel Security Practices Continue to Pose Risks of Unauthorized Access to the Department's Critical Financial Systems.* These significant deficiencies discuss how weaknesses with general controls and certain application controls, and weak security management increase risks associated with safeguarding funds, property, and assets from waste, loss, unauthorized use or misappropriation.

Also, OIG audit reports have disclosed that security over financial information was not provided in accordance with OMB Circular A-130 *Management of Federal Information Resources*, Appendix III and the Federal Information Security Management Act.

In addition, FHA's auditor reported a material weakness with respect to the HECM program credit subsidy cash flow model. The model contained improper calculations relating to terminated note recoveries and was not compliant with federal accounting standards regarding OMB discounting requirements for cash flow models for direct loan and loan guarantee programs.

Results of the Audit of FHA's Financial Statements

The independent certified public accounting firm of Urbach Kahn and Werlin LLP performed a separate audit of FHA's fiscal years 2007 and 2006 financial statements. Their report on FHA's financial statements, dated October 29, 2007[1] includes an unqualified opinion on FHA's financial statements, along with discussions of two material weaknesses and one significant deficiency.

[2] Urbach Kahn and Werlin LLP's report on FHA, Audit of Federal Housing Administration Financial Statements for Fiscal Years 2007 and 2006 (2008-FO-0002, dated November 08, 2007) was incorporated into this report.

Results of the Audit of Ginnie Mae's Financial Statements

The independent public accounting firm of Carmichael, Brasher, Tuvell and Company performed a separate audit of the Ginnie Mae's financial statements for fiscal years 2007. Carmichael, Brasher, Tuvell and Company's report on Ginnie Mae's financial statements, dated November 06, 2007,[2] includes an unqualified opinion on these financial statements. In addition, the audit results indicate there was one significant deficiency with Ginnie Mae's internal controls.

Objectives, Scope and Methodology

The accompanying principal financial statements are the responsibility of HUD management. Our responsibility is to express an opinion on these principal financial statements. As part of our audit, we considered HUD's internal controls over financial reporting by obtaining an understanding of the design effectiveness of internal controls, determined whether they have been placed in operation, assessed control risks, and performed tests of the reporting entity's internal controls to determine our audit procedures for the purpose of expressing our opinion on the principal financial statements and not to provide assurance on those internal controls. Consequently, we do not provide an opinion on internal controls. We conducted our audit in accordance with *Government Auditing Standards,* and the requirements of OMB Bulletin 07-04. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion on the financial statements.

We also tested HUD's compliance with laws, regulations, and provisions of contract and grant agreements that could have a direct and material effect on the financial statements. However, our consideration of HUD's internal controls and our testing of its compliance with laws, regulations, and provisions of contract and grant agreements were not designed to and did not provide sufficient evidence to express an opinion on such matters and would not necessarily disclose all matters that might be material

[2] Carmichael, Brasher, Tuvell and Company's report on Ginnie Mae, Audit of Government National Mortgage Association Financial Statements for Fiscal Years 2007 and 2006 (2008-FO-0001, dated November 07, 2007) was incorporated into this report.

weaknesses, significant deficiencies or noncompliance with laws, regulations, and provisions of contract and grant agreements. Accordingly, we do not express an opinion on HUD's internal controls or on its compliance with laws, regulations, and provisions of contract and grant agreements.

With respect to internal controls related to performance measures to be reported in the Management's Discussion and Analysis and HUD's *Fiscal Year 2007 Performance and Accountability Report*, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin 07-04. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not provide an opinion on such controls.

Agency Comments and Our Evaluation

On October 31, 2007, we provided a draft of the internal control and compliance sections of our report to the CFO and appropriate assistant secretaries and other Departmental officials for review and comment, and requested that the CFO coordinate a Department-wide response. The CFO responded in a memorandum dated November 2, 2007, which is included in its entirety in our separate report. Except for the report's conclusion on HUD's compliance with the Federal Financial Management Improvement Act and the material weakness on FHA's systems for processing HECM transactions, the Department generally agreed with our presentation of findings and recommendations subject to detailed comments included in the memorandum. The Department's response was considered in preparing the final version of this report.

This report is intended for the information and use of the management of HUD, OMB, the Government Accountability Office, and the U.S. Congress, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited. In addition to a separate report detailing the internal control and compliance issues included in this report and providing specific recommendations to HUD management, we noted other matters involving internal control over financial reporting and its operation that we are reporting to HUD management in a separate "management letter."

James A. Heist
Assistant Inspector General for Audit

November 14, 2007

Secretary's Audit Resolution Report to Congress

This information on the Department of Housing and Urban Development's audit resolution and follow-up activity covers the period October 1, 2006, through September 30, 2007. It is required by Section 106 of the Inspector General Act Amendments (Public Law 100-504), and provides information on the status of audit recommendations without management decisions and recommendations with management decisions, but no final action. The report also furnishes statistics on the total number of audit reports and dollar value of disallowed costs for FY 2007, and statistics on the total number of audit reports and dollar value of recommendations that funds be put to better use.

Audit Resolution Highlights

During FY 2007, the Department achieved 908 approved management decisions and successfully implemented 824 recommendations. The Department also made good progress in reducing its inventory of significantly overdue final actions, which are those recommendations greater than 12 months overdue. HUD began the year with 7 recommendations greater than 12 months overdue. At the mid-year point, an additional 57 recommendations that would become significantly overdue if not addressed by the end of the year were also identified and targeted. This inventory was successfully addressed and the Department ended the year with just one significantly overdue recommendation. This achievement was the result of a multi-year and concerted Department-wide effort to address and prevent overdue recommendations.

Recommendations Without Management Decisions

The Department is statutorily required to provide a management decision (an action plan with milestones) for each audit recommendation within 6 months of report issuance by the Inspector General.

FY 2007 began with a total of 350 recommendations without a management decision. During the year, 885 recommendations requiring management decisions were added to our active workload, and timely management decisions were made on a total of 908 recommendations. FY 2007 ended with 327 recommendations without management decisions, with just three recommendations beyond the statutory period of six months.

Summary of Recommendations Without Management Decisions
October 1, 2006 – September 30, 2007

Opening Inventory	350
New Audit Recommendations Requiring Decisions	885
Management Decisions Made	(908)
Audit Recommendations Awaiting Management Decisions	327
Audit Recommendations Beyond Statutory Period	3

Recommendations With Management Decision But No Final Action Taken

The Department began the year with an inventory of 964 management decisions requiring final action. During the year, 908 additional management decisions were made, the Department completed final action on a total of 824 recommendations. The total number of audit recommendations with management decisions, but final actions not yet completed at the end of the year, was 1048. Of these 1048 recommendations, 101 were under active multi-year repayment plans that remain open until the collection activities are completed.

At the beginning of FY 2007, the Department established an annual performance goal for each program office within HUD to reduce the Departmental opening balance of final actions that were more than 12 months overdue by 50 percent. At the beginning of FY 2007, there were 7 final actions that were more than 12 months overdue. At the end of FY 2007, there was only one final action that was more than 12 months overdue. All program offices met or exceeded their annual performance goals.

Summary of Recommendations With Management Decisions and No Final Action October 1, 2006 – September 30, 2007

Opening Inventory	964[1]
Management Decisions Made During FY 2007	908
Sub-Total No Final Action at End of Period	1,872
Final Action Taken	(824)
Audit Recommendations Reopened During Period	
(Without Final Action)	-0-
Total Audit Recommendations	
Requiring Final Actions	1048[2]

[1]The opening balance was decreased from 965 to 964 due to a retroactive/truncation entry that did not have any financial impact since it did not involve any costs.

[2]The Department had 59 audits with 101 recommendations under current repayment plans. These recommendations are considered open and count in the audit inventory until final repayment is made.

Status of Audits With Disallowed Costs

As of October 1, 2007, there were 200 audits with management decisions on which final action had not been taken, with a dollar value of disallowed costs totaling $310 million. During FY 2007, management decisions were made for 94 audits with disallowed costs totaling approximately $87.8 million. The Department had 93 audits in which final action was taken during the fiscal year, with approximately $30.6 million in recoveries and $35.8 million in write-offs. As of September 30, 2007, there were 201 audit reports with recommendations involving disallowed costs awaiting final action, with an associated value of approximately $331.8 million.

Note that the Inspector General Act requires reporting at the audit report level versus the individual recommendation level. At the audit report level, total disallowed costs in the report are reported as open until all recommendations in a report are closed. When reporting is done at the more detailed recommendation level, the $331.8 million of disallowed costs awaiting final action are reduced by $71.4 million (see the notation below corresponding to footnote 4).

Management Report on Final Actions on Audits With Disallowed Costs For the Fiscal Year End 9/30/07

Classification	Number of Audit Reports	Disallowed Costs
A. Audit reports with management decisions on which final action had not been taken at the beginning of the period.	200	$310,391,896
B. Audit reports on which management decisions were made during the period.	94	$ 87,812,550
C. Total audit reports pending final action during period.	294	$398,204,446
D. Audit reports on which final action was taken during the period.		
1. Recoveries	81[1]	$30,617,169
(a) Collections and offsets	62	$19,502,413
(b) Property	2	267,495
(c) Other	24	$10,838,261
2. Write-offs	45	$35,763,766
3. Total of 1 and 2	93[2]	$66,380,935
E. Audit reports needing final action at the end of the period (subtract D3 from C)	201[3]	$331,823,511
	(423)[4]	($260,374,847)

[1] Audit reports are duplicated in D.1.(a) and D.1.(c), thus the total is reduced by 7.

[2] Audit reports are duplicated in both D.1 and D.2; thus the total is reduced by 33.

[3] Litigation, legislation, or investigation is pending for 28 audit reports with costs totaling $107,831,902.

[4] The figures in brackets represent data at the recommendation level as compared to the report level.

Status of Audits With Recommendations That Funds Be Put to Better Use

At the beginning of FY 2007, there were 126 audits with management decisions on which final action had not been taken with recommendations to put funds to better use (i.e., used more efficiently), with a dollar value of approximately $3.1 billion. During FY 2007, management decisions were made for 82 audits with funds put to better use costs totaling approximately $889 million. The Department had 66 recommendations for which final action was taken during the fiscal year with a dollar value of $668 million, and 12 recommendations totaling $538 million that management concluded should not or could not be implemented. At the end of the year, there were 138 audits with recommendations to put funds to better use awaiting final action with an associated value of approximately $2.81 billion.

Note that the Inspector General Act requires reporting at the audit report level versus the individual recommendation level. At the audit report level, total funds put to better use in the report are reported as open until all recommendations in a report are closed. When reporting is done at the more detailed recommendation level, the $2.81 billion of funds put to better use costs awaiting final action is reduced by $1.88 billion, leaving an open balance of $929 million (see the notation below corresponding to footnote 3).

Management Report on Final Action On Audits With Recommendations That Funds Be Put to Better Use For The Fiscal Year Ended 9/30/07

Classification	Number of Audit Reports	Funds Put to Better Use
A. Audit reports with management decisions on which final action had not been taken at the beginning of the period.	126	$3,126,397,917
B. Audit reports on which management decisions were made during the period.	82	$889,381,159
C. Total audit reports pending final action during period (Total of A and B).	208	$4,015,779,076
D. Audit reports on which final action was taken during the period		
1. Value of recommendations implemented (completed)	66	$667,980,363
2. Value of recommendations that management concluded should not or could not be implemented	12	$538,402,881
3. Total of 1 and 2	70[1]	$1,206,383,244
E. Audit reports needing final action at the end of the period (Subtract D3 from C).	138[2]	$2,809,395,832
	(122)[3]	($929,342,842)

[1] *Audit reports are duplicated in D.1. and D.2, thus the total is reduced by 8.*

[2] *Litigation, legislation, or investigation is pending for 15 audit reports with costs totaling $255,635,867.*

[3] *The figures in brackets represent data at the recommendation level as compared to the report level.*

Delinquent Debt Collection

Fiscal Year Ending	Total Debt (In millions)	Delinquent Debt (In millions)	Delinquent Debt Collections (In millions)
2007*	$10,716	$607	$191

**The above totals reflect FY 2007 data from the Third Quarter Treasury Report on Receivables Due from the Public. The Treasury Report on Receivables for the Fourth Quarter was not available in time for incorporation into this report. The vast majority of these totals are comprised of debts from FHA and Housing programs. Less than one percent of delinquent debt originates from all other HUD programs. The Housing Financial Operations Center in Albany, New York, administers the vast majority of delinquent, eligible debts that HUD refers to the Department of the Treasury.*

HUD's Financial Operations Center remains committed to maximizing collections on delinquent debts using all available collection tools. The Center continues to work closely with systems contractors and the Department of the Treasury to maintain the systems and processes that assure continued full compliance with the Debt Collection Improvement Act of 1996 (DCIA).

During FY 2007, HUD added single family partial claim debts to the Center's debt portfolio. The intent of this action was to increase collections by exposing these debts to all DCIA mandated collection tools. To date, HUD has referred over 5,100 partial claim debts to the Center, resulting in FY 2007 collections in excess of $3.9 million.

Also, during FY 2007, the Center submitted $43.1 million of new delinquent debts to Treasury's national delinquent debtor database for potential offset via the Treasury Offset Program. At the end of FY 2007, a total of 14,385 debtors, representing $209.8 million owed, were eligible for offset by Treasury. This program is a centralized offset program, administered by Treasury's Financial Management Service, to collect delinquent debts owed to federal agencies. Offset collections during FY 2007 totaled $7.7 million for the Department.

During FY 2007, the Center also referred $30.7 million of new debts to Treasury for cross-servicing. At the end of 2007, 4,790 debts amounting to $64.2 million were at cross-servicing. Cross-servicing is the process whereby federal agencies refer delinquent debts to Treasury's Financial Management Service for collection. The DCIA requires that all eligible debts be referred to Treasury for offset and for cross-servicing when they are 180 days delinquent.

Overall, HUD mailed a total of 7,528 "Notice of Intent" letters to delinquent debtors advising them that their debts were past due. These notices provide debtors with the right to establish repayment plans or appeal the enforceability of debts through the HUD Office of Appeals, or for federal employees, through an Administrative Law Judge. Debtors who fail to make payment arrangements or exercise their appeal rights are referred to Treasury, where they are subjected to aggressive collection efforts, including offset of federal payments, referral to private collection agencies, and administrative wage garnishment.

The Center continued to improve the management of its debt caseload with the assistance of the U.S. Court's Public Access to Court Electronic Records system. This system offers inexpensive, fast, and comprehensive bankruptcy case information on active and recently closed cases, and has allowed HUD to more efficiently handle accounts where the debtor has filed bankruptcy.

Among federal agencies, HUD continued to spearhead the use of administrative wage garnishment as a tool for the collection of debt. HUD has used this tool, via Treasury's cross-servicing Program, since 2002. Treasury reported $1.6 million in administrative wage garnishment collections for HUD debt during FY 2007, with 291 active Wage Garnishment Orders in place at the end of the fiscal year. During FY 2007, the Center collected an additional $660,300 via its direct administrative wage garnishment program for delinquent debts that Treasury returned to HUD following cross-servicing action.

During FY 2007, the Center continued suspension of all active collections against debtors located within the FEMA-designated areas for the Hurricane Katrina disaster. Since the debtors are in various stages of recovery, the Department is still in the process of re-evaluating the overall debt process with respect to the affected debtors.

Additional HUD debt collection initiatives during FY 2007 included: system enhancements to improve reporting to HUD's Credit Alert Interactive Voice Response System, use of the Electronic On-line Solutions for Complete and Accurate Reporting System to respond to 1,744 consumer disputes that were filed with credit bureaus regarding HUD's credit reporting of delinquent debts, and a reconciliation of HUD's records with Treasury's FedDebt collection system.

U.S. Department of Housing and Urban Development

Office of Inspector General

451 7th St., S.W.
Washington, D.C. 20410-4500

October 19, 2007

MEMORANDUM FOR: Alphonso Jackson, Secretary, S

FROM: Kenneth M. Donohue, Inspector General, G

SUBJECT: Management and Performance Challenges

In accordance with Section 3 of the Reports Consolidation Act of 2000, the Office of Inspector General (OIG) is submitting its annual statement to you summarizing our current assessment of the most serious management and performance challenges facing the Department of Housing and Urban Development (HUD) in fiscal year (FY) 2008 and beyond. Through our audits and investigations, we work with departmental managers in recommending actions that best address these challenges. More details on our efforts in relation to these issues can be found in our audit and investigative chapters of our Semiannual Report to the Congress.

The Department's primary mission is to expand housing opportunities for American families seeking to better their quality of life. HUD seeks to accomplish this mission through a wide variety of housing and community development grant, subsidy, and loan programs. Additionally, HUD assists families in obtaining housing by providing Federal Housing Administration (FHA) mortgage insurance for single-family and multifamily properties. HUD relies upon numerous partners for the performance and integrity of a large number of diverse programs. Among these partners are hundreds of cities that manage HUD's Community Development Block Grant (CDBG) funds, hundreds of public housing authorities that manage assisted housing funds, thousands of HUD-approved lenders that originate and service FHA-insured loans, hundreds of Ginnie Mae mortgage-backed security issuers that provide mortgage capital, and other federal agencies with which HUD coordinates to accomplish its goals. HUD also has a substantial responsibility for administering disaster assistance programs in the Gulf Coast region.

Achieving HUD's mission continues to be an ambitious challenge for its limited staff, given the agency's diverse mission, the thousands of program intermediaries assisting the Department in this mission, and the millions of beneficiaries in its housing programs. HUD's management problems had for years kept it on the Government Accountability Office's (GAO) list of agencies with high-risk programs. In its January 2007 high risk update, GAO removed HUD's single-family mortgage insurance and rental housing assistance programs from its high risk list. Although HUD was removed from the GAO high risk list, it needs to continue to place a high priority on efficient and effective management of these programs. Proposed program changes could introduce new risks and oversight challenges. More specifically, HUD has proposed changes to its single-family mortgage insurance program that would increase the size of the mortgages HUD could insure, give HUD flexibility to set insurance premiums based on the credit risk of borrowers, and reduce downpayment requirements from the current 3 percent to potentially zero. In addition, HUD has seen a dramatic increase in FHA-insured home equity conversion (also known as "reverse") mortgages. As a result, HUD will be challenged to develop adequate systems to account for those loans.

HUD's reported management challenges are addressed in the President's Management Agenda's government-wide and HUD-specific initiatives. As of the end of the third quarter of FY 2007, HUD's President's Management Agenda scoring status for the nine applicable initiatives consisted of five "green," two "yellow," and two "red" baseline goal scores. Based upon a comprehensive set of standards, an agency is "green" if it meets all of the standards for success, "yellow" if it has achieved some but not all of the criteria, and "red" if it has even one of a number of serious flaws. It is noteworthy that for the first time since the President's Management Agenda was announced in August 2001, HUD received a green status rating for Improved Financial Performance in the second quarter of FY 2007.

HUD's baseline score for competitive sourcing status declined from yellow in the second quarter to red in the third quarter of FY 2007. Competitive sourcing is a process that compares private-sector and government bids to determine the most cost-effective way to buy services. HUD was downgraded from yellow to red because it did not implement a competition after it was completed and also did not notify OMB of the final disposition of the competition in a timely manner. HUD plans to streamline competitions to elevate its rating. HUD has been scored red on its credit management program since it was added to the President's Management Agenda in FY 2006.

Although the management structure, size, and range of departmental programs make it difficult to correct and overcome program weaknesses, HUD is working to address these challenges and, as shown by the President's Management Agenda scoring, has made progress. The Department's management challenges we are reporting this year include the following:

- Human capital management,
- Financial management systems,
- FHA single-family origination,
- Public and assisted housing program administration, and
- Administering programs directed toward victims of Hurricanes Katrina, Rita, and Wilma.

The attachment provides a greater discussion of these challenges and OIG's efforts to help the Department resolve these matters.

Attachment

HUD Management and Performance Challenges

Fiscal Year 2008 and Beyond

Human Capital Management. For many years, one of the Department's major challenges has been to effectively manage its limited staff resources to accomplish its primary mission. In addition to having limited staff resources, approximately 60 percent of HUD's workforce will be eligible to retire by fiscal year (FY) 2009.

To address its human capital needs and respond to the President's Management Agenda, HUD developed a comprehensive Five-Year Strategic Human Capital Management Plan that identifies three strategic goals for human capital:

- Mission-focused agency to align employees and work to support HUD's mission;
- High quality workforce, which recruits, develops, manages, and retains a diverse workforce; and
- Effective succession planning to ensure that retirees over the next five years are succeeded by qualified employees.

To address staffing imbalances and other human capital challenges, the Department seeks to determine its optimal organizational structure and reduce mission-critical skill gaps to ensure that it is positioned to provide maximum service to its constituents. The Department is also proceeding to develop a vision for the future to address what its work will be, how it should be organized to carry out the work, and the required skills in relation to full-time employees and training efforts. HUD continued to implement its Five-Year (FY 2003-2008) Strategic Human Capital Management Plan, enabling it to recruit, develop, manage, and retain a high-performance workforce that is capable of effectively supporting HUD's mission.

To address the potential staff reduction due to retirement, HUD implemented a probability model to more accurately project future retirement and target high-risk critical positions for succession planning purposes in May 2006. A recent Office of Inspector General (OIG) audit found that HUD had not fully initiated adequate succession planning to address future staffing concerns. Specifically, some HUD offices had failed to identify and/or support the actions taken to fully implement HUD's succession plan. To ensure that adequate succession planning is in place, HUD needs to implement adequate procedures and controls to ensure that all program offices initiate succession planning to comply with HUD's requirements.

Competitive sourcing is a government-wide initiative designed to ensure that the government acquires commercially available services at the best value for the taxpayer, regardless of whether such services are provided by the private sector or federal government. The Department is committed to using competitive sourcing as a means of achieving efficiencies, increasing cost effectiveness, and improving services, while minimizing program risks. HUD is challenged with carefully balancing the impact of outsourcing on program risk.

As evidenced in OIG's recent audit of HUD's contract administration process, as HUD contracts out for more services, it is challenged to provide adequate in-house staff to monitor those contracts. OIG found that HUD did not have adequate controls over processes to ensure (1) quality of statements of work, (2) the continued need for goods and services, (3) support for payments to contractors, and (4) proper evaluation and reporting of contractor performance. OIG audits of HUD's oversight of contractors' marketing of real estate-owned properties and HUD's oversight of project-based Section 8 contract administrators have resulted in findings that oversight shortcomings have adversely impacted contractor performance.

***Financial Management Systems*.** Since FY 1991, OIG has annually reported on the lack of an integrated financial system in compliance with all federal financial management system requirements, including the need to enhance the Federal Housing Administration's (FHA) management controls over its portfolio of integrated insurance and financial systems. During the past several years, HUD has made progress in implementing a new financial system at FHA and addressing most of the weaknesses that OIG identified. These improvements enabled OIG to reclassify the weakness in financial management system requirements from a material weakness to a reportable condition. Other weaknesses noted were as follows:

- FHA needs to continue progress in integrating its financial management systems.
- FHA needs to improve its compliance with HUD and federal information system security requirements.
- HUD's ability to prepare financial statements and other financial information requires extensive compensating procedures.
- HUD has limited availability of information to assist management in effectively managing operations on an ongoing basis.

For the past several years, OIG's financial audits have also reported weaknesses in internal controls and security over HUD's general data processing operations and specific applications. The effect of these weaknesses is that HUD cannot be reasonably assured that system information will remain confidential, protected from loss, and available to those who need it without interruption.

***FHA Single-Family Origination*.** FHA's single-family mortgage insurance programs enable millions of first-time, minority, low-income, elderly, and other underserved households to realize the benefits of homeownership. HUD manages about $340 billion in single-family insured mortgages. Effective management of this high-risk portfolio represents a continuing challenge for the Department. The President's Management Agenda has committed HUD to tackling long-standing management problems that expose FHA homebuyers to fraudulent practices. HUD has, however, proposed changes to its single-family mortgage insurance program that could introduce new risks and oversight challenges. Specifically, HUD's proposed changes and challenges include the following:

- Creating a new, risk-based insurance premium structure for FHA that would match the premium amount with the credit profile of the borrower. OIG is concerned that this structure could expose the insurance program to fair housing questions and accusations of "redlining" unless the decision matrix for pricing is unimpeachably objective.

- Eliminating the current statutory 3 percent minimum downpayment, reducing a significant barrier to homeownership. HUD has to address concerns that lowering the minimum downpayment could increase default risks.

- Increasing and simplifying FHA's loan limits. OIG is concerned that raising FHA area loan limits, especially in high-cost areas, will not help low- and moderate-income families become homeowners and will expose the insurance fund to increased risk from regional economic downturns.

In addition to proposed reform, HUD has taken a number of recent actions to reduce risks including the following:

- At our urging and in light of an Internal Revenue Service ruling regarding nonprofits that provide seller-funded downpayment assistance, HUD published a final rule that will prohibit downpayment gifts, when the gift was derived either directly or indirectly from the seller.

- HUD incorporated better risk factors and monitoring tools into FHA's single-family insured mortgage program risk analysis and liability estimation process, and

- HUD continues to improve its review of the credit reform estimation process.

We continue to focus internal audit resources on the single-family program. For example, our audit of the Title II manufactured housing loan program found that more than 80 percent of FHA Title II insured manufactured housing loans that closed from 2003 through 2005 were installed on substandard foundations. As a result, FHA's insurance fund is not adequately protected, homeowner equity and resale values are diminished, and the structural integrity and safety of the homes are questionable. We recommended that HUD correct program weaknesses to ensure that Title II manufactured housing foundations meet FHA requirements and avoid unnecessary losses to the insurance fund.

In support of HUD and the President's Management Agenda, OIG's strategic plan gives priority to detecting and preventing fraud in FHA mortgage lending through targeted audits and investigations. Our audits target lenders with high default rates. Our detailed testing focuses on mortgage loans that defaulted and resulted in FHA insurance losses. Results from these audits have noted significant lender underwriting deficiencies, prohibited late-endorsed loans, inadequate quality controls, and other operational irregularities. During FY 2007, we completed 12 external audits of FHA-approved mortgage lenders as well as five internal audits of single-family program activities. We identified questioned costs of $2.2 million and funds that could be put to better use totaling $47.5 million. During FY 2007, judicial actions taken on Office of Investigation single-family related cases included 232 indictments/informations.

Public and Assisted Housing Program Administration. HUD provides housing assistance funds under various grant and subsidy programs to public housing agencies and multifamily project owners. These intermediaries, in turn, provide housing assistance to benefit primarily low-income households. HUD monitors these intermediaries' administration of the assisted housing programs.

The project-based Section 8 program has evolved over the years, and, accordingly, the services required from the contractors to administer the program have changed. However, our audits have shown that the terms of the contracts between HUD and the contractors have not been modified as the program service needs have changed. In addition, HUD faces challenges in establishing processes and systems for budgeting and funding Section 8 project-based contract renewals and amendments to meet program needs and ensuring appropriate funds control.

Accurate and timely information about households participating in HUD housing programs is necessary to enable HUD to monitor the effectiveness of the program, assess agency compliance with regulations, and analyze the impacts of proposed program changes. The level of reporting is a criterion for housing agencies' performance in both the Public Housing Assessment System and the Section 8 Management Assessment Program. HUD's goal is to obtain a minimum of 95 percent reporting of tenant data into the system.

HUD's ability to effectively monitor housing agencies and assisted multifamily projects continues to present challenges in achieving the intended statutory purposes of the housing assistance funds. These deficiencies have been reported for a number of years in OIG's annual audits of HUD's financial statements. However, HUD has continued to make progress in this area by implementing several initiatives that address the problems surrounding housing authorities' rental subsidy determinations, underreported income, and assistance billings. This progress assisted the Department in being removed from GAO's high risk list.

The estimate of erroneous payments that HUD reports in its performance and accountability report relates to its inability to ensure or verify the accuracy of subsidy payments being determined and paid to assisted households. The baseline estimate of gross annual improper payments was reduced from $3.2 billion in 2000 to $1.2 billion in the 2004 study, a 62 percent reduction. However, the estimate did increase slightly to $1.5 billion in the 2005 study. The $1.5 billion consisted of rent determination errors made by the intermediaries to whom HUD incorrectly paid $925 million in annual housing subsidies, $338 million in housing subsidy overpayments caused by tenants' misreporting their income, and an error estimate of $206 million for billing errors. Although HUD has made substantial progress in reducing erroneous payments, it must continue regular on-site and remote monitoring of the public housing agencies and project owners and use the results from the monitoring efforts to focus on corrective actions when needed.

Paralleling HUD efforts, our investigative and audit focus is concentrating on fraudulent practices and the lack of compliance with the Section 8 program statute and requirements. OIG conducted 30 external audits and two internal audits of the Section 8 Housing Choice Voucher program during FY 2007. OIG also has professional appraisers on staff to assist in evaluating housing quality requirements as part of our audit efforts. In total, these external audits addressed whether housing agencies are correctly calculating subsidy amounts, correctly determining family income, complying with housing quality standards, fully using authorized vouchers, and implementing controls to prevent duplicative and fraudulent housing assistance payments. Our audits identified questioned costs of more than $13.7 million and reported more than $80.8 million that could be put to better use.

***Administering Programs Directed Toward Victims of Hurricanes Katrina, Rita, and Wilma*.** In the aftermath of Hurricanes Katrina, Rita, and Wilma, the operations of HUD have been thoroughly tested in the Gulf Coast area and have created extraordinary challenges for the residents, HUD employees, and the business community. The losses to HUD and its housing and community development programs are significant and continue to be a focus and challenge for HUD OIG. To deal with the enormous task of enforcement and oversight, OIG has established a new regional office, headquartered in New Orleans, Louisiana. OIG audit, investigative, and inspections staff provide a continuing and comprehensive review of the expenditure of funds and their administration.

Regarding the accountability and oversight of the approximately $17 billion in supplemental disaster funding, we have identified some specific program areas that will need immediate attention during this period due to high risk, potential substantial additional funding requests, and high profile special assistance requirements. These areas include the following:

- Community Development Block Grant funding for Louisiana's Road Home program,
- The Disaster Housing Assistance Program, and
- Disaster funds to assist public housing agencies in the Gulf Coast region.

HUD OIG has concerns about the accountability and oversight of HUD-funded programs in the Gulf Coast region because of (1) substantial potential additional funding requests for Road Home applicants, (2) high profile special assistance requirements for the Disaster Housing Assistance Program, and (3) risks associated with possible duplication and inappropriate uses of funding sources for the repair and reconstruction of public housing units.

There are also continuing problems with the execution of data matching among federal agencies. It took months for OIG to finalize a protocol with the Federal Emergency Management Agency to use its data for matching purposes to detect potentially fraudulent payments. The problems that we have encountered would be greatly mitigated if the Privacy Act included an exception for post disaster data matching or if alternative legislation required federal agencies to engage in data matching as a routine procedure in their provision of disaster assistance.

Inspector General and HUD Management Perspectives

In accordance with the Reports Consolidation Act of 2000, HUD's annual Performance and Accountability Report "…shall include a statement prepared by the agency's inspector general that summarizes what the inspector general considers to be the most serious management and performance challenges facing the agency and briefly assesses the agency's progress in addressing those challenges." On October 19, 2007, HUD's Inspector General (IG) provided a statement on five management challenges for inclusion in this FY 2007 Performance and Accountability Report:

1. Human capital management;
2. Financial management systems;
3. FHA single family origination;
4. Public and assisted housing program administration; and
5. Administering programs directed toward the victims of Hurricanes Katrina, Rita, and Wilma.

The full text of the HUD Inspector General's Management and Performance Challenges statement is presented immediately before this summary of HUD management's current perspective on these challenges.

HUD Management's Perspective

HUD management generally agrees that the five areas identified in the Inspector General's statement are challenges currently facing the Department. As an indicator of the importance being placed on addressing each of these issues, the first four of these five challenges are included in high-visibility initiatives in the President's Management Agenda, and the fifth challenge, administering HUD's hurricane disaster relief efforts, is being carried-out in accordance with OMB guidance on expediting benefits and controlling the risk of fraud, waste, and abuse in hurricane disaster relief efforts. In addition to the progress on these challenges that is summarized below, and which is also acknowledged in the IG's statement, further information on HUD's specific FY 2007 actions to meet these challenges is provided in the President's Management Agenda section of this report.

Human Capital Management – This challenge is covered through HUD actions taken and planned under the PMA initiative on "Strategic Management of Human Capital." As cited in the Inspector General's memorandum, HUD has recognized the significance of succession planning with the possibility of a large loss of institutional knowledge in the next five years. On October 4, 2006, the Office of Personnel Management (OPM) approved HUD's Succession Management Plan for implementation beginning in FY 2007. OPM applauded the Department's Plan as being one of the most comprehensive and thoroughly written plans submitted to their Center for General Government. The Department's theme for the coming fiscal year is "Succession Planning: Preparing HUD's Workforce for the Future."

The Department's Plan embraces training and development as a most essential component for tapping and expanding the potential of existing staff for more responsible positions at various grade levels. The Department's Training Strategy, which was announced to all HUD employees by Secretary Jackson on August 30, 2006, also includes the expansion of several developmental programs and other succession strategies. An additional strategy implemented this fiscal year included the centralization of all interns within the Office of Administration in accordance with the Department's multi-faceted succession plan. A total of 50 interns have been hired for the initial two-year program beginning in FY 2007, with new classes of 100 interns proposed for two-year programs beginning in FY 2008 and 2009.

Regarding Human Capital Management as a whole, HUD has taken significant steps to better utilize existing staff capacity, and to obtain, develop, and maintain the capacity necessary to adequately support HUD's future mission-critical program delivery. The Department's five-year Human Capital Management Strategy seeks to ensure that: 1) HUD's organizational structure is optimized; 2) succession strategies are in place to provide a continuously updated talent pool; 3) performance appraisal plans for all managers and staff ensure accountability for results and a link to the goals and objectives of HUD's mission; 4) hiring strategies are in place to sustain a diverse workforce; 5) skill gaps are assessed and corrected; and 6) human capital management accountability systems are in place to support effective management of HUD's human capital.

Financial Management Systems – During FY 2007, HUD continued to build on the successes generated in previous years, and again was able to report substantial compliance with the federal financial systems requirements of the Federal Financial Management Improvement Act of 1996 and Section 4 of the Federal Managers' Financial Integrity Act of 1982.

Additionally, HUD was able to report substantial compliance of the Department's internal control over financial reporting, as required by Appendix A of OMB Circular A-123. HUD's financial systems supported the preparation and audit of Department-wide consolidated financial statements within 45 days after the end of the fiscal year, with an unqualified audit opinion.

The Department does not agree, however, with the Inspector General's assessment that HUD has limited availability of information to assist management in effectively managing operations on an ongoing basis. During FY 2007, the Department was upgraded from a score of "Red" at the end of FY 2006 to "Green" on the "Improved Financial Performance" initiative of the President's Management Agenda, in large part due to the Department's ability to document the availability and current uses of financial information to facilitate decision-making, much of which comes from the HUD Financial Data Mart. The Financial Data Mart assists management decisions in the areas of budget planning, budget execution and spending, project management, and contract management. Data is also used to support information requests, improve trend analyses, meet OMB's accelerated deadlines for financial reporting, provide metrics to measure financial/accounting performance, identify and reduce unneeded unobligated balances, and ensure that unexpended funds are managed appropriately.

The Department has provided Financial Data Mart access to over 350 users representing 10 major allotment holders and over 150 unique HUD organizational units. The users are primarily those that are responsible for financial decision-making, e.g., budget officers, program managers, financial analysts, accountants, and auditors. Users of the Data Mart access hundreds of millions of financial records via over 250 web-based or broadcast reports, primarily financial in nature, e.g., Status of Funds, cash management, general ledger reconciliation, grant-level subsidiaries, contract balances, historical activity-based, and event-based quality assurance. In addition, HUD staff has created hundreds of specialized reports over the past eight years to meet ad-hoc requests.

HUD acknowledges the need for increased internal controls and security over its general data processing operations and specific applications. To that end, HUD has made significant progress as noted by its score of "A+" by the Government Reform Committee of Congress on compliance with the Financial Information Security Management Act. This score recognized HUD's improvement in its annual testing of security controls and contingency plans as well as more systems having been certified and accredited. HUD recognizes the need to continue to enhance its internal controls and systems security through increased discipline in its access controls and by continuing to capitalize on state of the art technology to confront increasingly more sophisticated threats.

The completion of the procurement of a highly qualified systems integrator and hosting service provider to support HUD's implementation of a "modern integrated core financial management system" is scheduled for early in FY 2008, but is dependent upon appropriation of sufficient funding for IT investments in HUD's Working Capital Fund.

FHA Single Family Origination – Risks of the FHA Single Family Housing Mortgage Insurance Programs have been reduced through actions taken under the HUD Management and Performance initiative of the President's Management Agenda, as acknowledged in the Inspector General's statement. Of major significance, in January 2007, the Government Accountability Office removed the single family mortgage insurance and rental housing assistance programs from its list of "High Risk" programs for the first time since 1994. In the area of single family mortgage insurance, HUD's completed actions include:

- Implementation of an FHA computer system changes to accept a new 30-day delinquency reporting standard;
- Conducting training on enhancements to HUD's internal controls over processing payments for property management services;
- Implementation of Credit Watch Termination program which identifies FHA lenders with excessive default and claim rates relative to their geographic area, and terminates the ability of the worst lenders to originate FHA insured mortgages. Appraiser Watch similarly targets appraisers with poor performance records for monitoring and disqualification if they have violated FHA standards; and
- Implementation of the "Technology Open To Approved Lenders" automated underwriting process to provide more consistent, objective evaluations of the credit worthiness of borrowers.

Additionally, FHA refined the assumptions used to calculate credit subsidy estimates to account for the increased risk associated with borrowers who receive gift letters and to incorporate borrower credit score information.

In response to the challenges identified in this area, HUD has the following comments:

- Risk-based Premiums - FHA is more than confident that its risk-based premiums structure will pass any challenge as to fair housing and "redlining" - the illegal practice of discrimination against a particular racial group by real estate lenders or insurance companies. The premium structure is based solely on borrower credit and Loan-To-Value ratio and was developed by extensive analysis of insured mortgages where the eventual outcome (claim or no claim to the insurance fund) was known. Credit score and Loan-To-Value are reliable predictors of mortgage performance and are non-discriminatory.

- Eliminating the 3 percent downpayment - FHA will of course address concern that lowering the minimum downpayment could increase default risks. That is why FHA is implementing risk-based premiums, and why FHA will limit eligibility to low or no downpayment mortgages to only those likely to sustain homeownership. FHA's analysis shows that FHA can reduce the most significant barrier to homeownership, i.e., the downpayment, in a responsible, actuarially sound manner.
- Loan Limits - FHA disagrees that simplifying and increasing loan limits will not help low- and moderate-income families become homeowners. FHA's loan limits keep it out of many markets where it is needed, especially for homebuyers wishing to purchase newly constructed (and generally more expensive) homes. Finally, FHA questions how higher loan limits "will expose the insurance fund to increased risk from regional economic downturns." Economic downturns will affect FHA no matter how high or low the mortgage limits are, and it is FHA's responsibility to provide mortgage insurance in these areas to help stabilize the housing market.

FHA must still overcome the challenge of modernizing and integrating old, COBOL- based program feeder systems into its integrated core financial system, the FHA Subsidiary Ledger System. Systems development plans have been delayed by funding cuts in HUD's Working Capital Fund for IT investments. Sufficient IT systems investments will eliminate the need for compensating manual controls over aspects of FHA's business.

Public and Assisted Housing Program Administration – As noted in the IG's memorandum, the project-based Section 8 program has evolved over the years, and the services required from the contractors to administer the program have changed. Concerning the comment that contractors are being paid for work not performed, the contracts are being revised and will compensate for programmatic changes impacting contractor performance and the payments, eliminating provisions for work no longer required.

HUD set and communicated clear measurable goals and corrective actions for reducing improper rental housing assistance payments and improving public and assisted housing conditions, and continues to work collaboratively with the housing industry and local housing program administrators to meet or exceed those goals.

As noted previously, for the first time since 1994, the Government Accountability Office removed HUD's single family mortgage insurance and rental housing assistance programs from the list of "High Risk" programs. This outcome was achieved partly as a result of HUD's multi-year effort to strengthen internal controls over rental housing assistance payments. Since 2001, improper payments due to program administrator subsidy determination errors and tenant underreporting of income have been reduced from $3.22 billion to $1.34 billion - a reduction of 58.4 percent. Because of this effort, the Department also maintained a score of "Green" for the Eliminate Improper Payments President's Management Agenda initiative**.**

HUD also has continued to improve housing quality standards. The percentage of properties meeting HUD's physical condition standards in FY 2007 has increased to 91 percent for public housing, representing 85.7 percent of units, and 94 percent for assisted multifamily housing, from the previous score of 83 percent for public housing and 87 percent for insured and assisted multifamily housing in FY 2000.

To accomplish this progress, PIH modified its overall monitoring strategy for public and assisted housing during FY 2007 by stratifying PHAs into two tiers. Tier 1 is composed of approximately 500 PHAs, which account for more than 80 percent of the PIH funding provided. Tier 2 covers the remaining 3,600 PHAs. HUD conducted detailed annual reviews of approximately 20 percent of the Tier 1 PHAs and as many of the Tier 2 PHAs as administrative funds will allow, concentrating monitoring resources on the PHA's with the greatest risk.

Similarly, HUD's Office of Multifamily Housing and their Performance-Based Contract Administrators continued to conduct on-site monitoring reviews in FY 2007, directed at improving program administrator performance to reduce improper payments and improve housing conditions. The full implementation of HUD's new Enterprise Income Verification System for upfront verification of tenant income has the potential to eliminate much of the remaining improper rental assistance payment problem caused by tenant under reporting of income. Implementation of EIV began in PIH programs in FY 2006 and will be initiated for Multifamily Housing Programs in FY 2008.

Administering Programs Directed Toward Victims of Hurricanes Katrina and Rita - HUD responded quickly in the wake of this unprecedented natural disaster to help meet the temporary housing needs of displaced households, assess the impacts on HUD-supported housing, and plan the long-term recovery of the devastated region. While HUD's response was immediate and comprehensive, it also recognized that the enormous amount of relief funds creates the potential for fraud and abuse. Over $6.2 billion in CDBG Disaster Assistance Grant funds were disbursed to the five states affected by the Hurricanes during FY 2007. HUD awarded a new monitoring contract to supplement its own oversight efforts in FY 2008 and beyond. Also, the Department continues to utilize the Disaster Recovery Grant Report system to comply with quarterly Congressional reporting requirements and to aid in the detection and prevention of fraud, abuse, or mismanagement.

Improper Payments Information Act Reporting Details

The Requirements

Under the Improper Payments Information Act (IPIA) of 2002 (Public Law 107-300), and the Office of Management and Budget (OMB) implementing guidance in Appendix C of Circular No. A-123, agencies are to assess all programs and activities they administer and identify those that may be susceptible to significant improper payments. Where the risk of improper payments is assessed as potentially significant, agencies are required to estimate the annual amount of improper payments and report the estimates along with plans to reduce improper payments to the President and the Congress. The statute defines a "significant" level of improper payments as annual improper payments exceeding a $10 million dollar threshold.

An "improper payment" is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments and underpayments (including inappropriate denials of payment or service). An improper payment includes any payment that was made to an ineligible recipient or for an ineligible service. Improper payments are also duplicate payments, payments for services not received, and payments that do not account for credit for applicable discounts. Also, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an error. In addition to identifying substantive errors that might warrant repayment, HUD's statistical sampling of support for payments also considered "process" errors that increase the risk of substantive payment errors, and process errors are included in HUD's improper payment estimates.

HUD's Commitment

The Secretary designated the Chief Financial Officer as the lead official for directing and overseeing HUD actions to address improper payment issues and bring HUD into compliance with requirements of the IPIA and OMB implementing guidance. The Office of the Chief Financial Officer developed a plan for implementing the IPIA and after necessary contract support services were put in place by the Chief Financial Officer and FHA, HUD began to execute the plan in FY 2004. HUD's plans, goals and results for identifying and reducing improper payments are tracked under the President's Management Agenda.

HUD's Process

The HUD process for complying with the Improper Payments Information Act consists of four steps. The first step is an initial survey of all program and administrative activities, regardless of size, for potential indicators of significant improper payments. Any program activities identified in the survey and all program activities with annual expenditures in excess of $40 million are subjected to the second step, which is a detailed risk assessment. The third step consists of statistical sample testing of payments by independent reviewers to determine the estimated amount of improper payments in any program activity determined to be susceptible to a significant improper payment level. The fourth step is to establish, execute, and monitor corrective action plans for reducing improper payments in the identified at-risk programs.

Summary of HUD Results to Date

HUD is fully compliant with the requirements of the IPIA and was the first federal agency to achieve the President's goals for reducing improper payments. HUD's initial annual assessment of the risk of improper payments was conducted in FY 2004, based on the $52.9 billion in payments made in FY 2003 in support of over 200 programs and administrative activities.

HUD's initial assessment identified 10 activities, representing 57 percent of all payments, as potentially "at risk" of a significant improper payment level. Statistical sampling to measure and estimate the actual level of improper payments in those 10 program activities found that only 5 of the 10 areas actually had a significant improper payment problem. Corrective actions were subsequently completed to eliminate the significant improper payments in 2 of those 5 areas, pertaining to payments under the Single Family Acquired Asset Management System and the Public Housing Capital Fund.

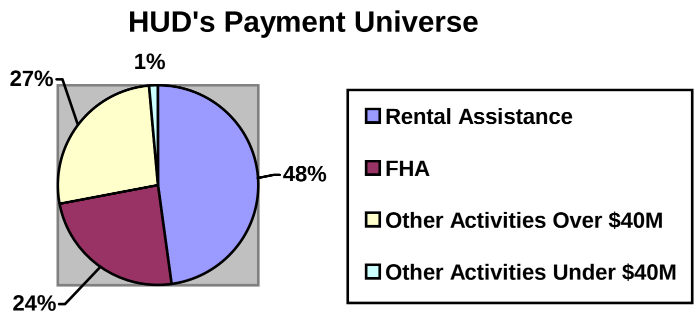
Prior to enactment of the Improper Payments Information Act, the Office of Management and Budget requested agency input on improper payments in select programs, including the CDBG Entitlement and State/Small Cities Programs, through Section 57 of OMB Circular No. A-11. HUD's original Section 57 assessment and initial annual risk assessments found these CDBG programs to be at low risk of improper payments not warranting reporting. However, OMB subsequently revised its guidance to clarify that agencies should report on the former Section 57 programs until they can document a minimum of two consecutive years of improper payments that are less than $10 million annually, as the basis for a request for OMB relief from annual reporting. CPD headquarters staff analyzed the data from their monitoring results and extrapolated to the annual funds disbursed for fiscal years 2003 to 2006 to determine the total estimated annual CDBG improper payment level for the four-year period.

HUD's analysis determined that the CDBG Program is below the annual $10 million threshold for required reporting, and on March 14, 2007, OMB approved HUD's request for relief from annual improper payment reporting. HUD will continue to conduct an annual risk assessment of the CDBG programs and provide results to OMB by March 31 annually.

HUD set aggressive goals for reducing improper payments in the remaining three high-risk program areas – the Public Housing, Tenant-Based Voucher and Project-Based Assistance Programs – collectively referred to as HUD's rental housing assistance programs. HUD has reduced the combined baseline gross improper rental housing assistance payment estimates of $3.430 billion in Fiscal Year 2000 to $1.519 billion in Fiscal Year 2006, a reduction of 56 percent.

Results of Annual Risk Assessment Update and Continued Payment Testing

The annual improper payment risk assessment update is based on prior year data. The FY 2007 update was based on payment and other relevant activity that occurred during FY 2006. An inventory of over 200 distinct program and administrative payment activities was identified from all of HUD's financial management systems in FY 2006, with total payments of $57.7 billion. The payment universe consisted of the following general distribution:



HUD's risk assessment update in FY 2007 did not identify any new activities as being at-risk of a significant improper payment level. Programs that previously tested below the improper payment threshold established by the IPIA were removed from HUD's at-risk inventory and are not subject to re-testing unless there is significant change in the nature of the activity, HUD's internal control structure, or operating environment.

Rental Housing Assistance Programs

HUD's various rental housing assistance programs – public housing, tenant-based assistance, and project-based assistance – had previously been assessed as at high risk of significant improper payment levels, and continue to be reported as such, with corresponding error measurement methodologies, corrective action plans, and error reduction goals described below. These programs constituted over $27 billion, or 48 percent, of HUD's total payments in FY 2006.

Prior to enactment of the IPIA, HUD had already established the Rental Housing Integrity Improvement Project in FY 2001 to reduce an acknowledged improper payment problem in its rental assistance programs. This project is directed by the responsible HUD program offices, with oversight by the Office of the Chief Financial Officer and statistical sampling support from the Office of Policy Development and Research. HUD's rental assistance programs are administered by over 26,000 public housing agencies and multifamily housing owners or management agents on HUD's behalf. In general, beneficiaries pay 30 percent of their adjusted income as rent, and HUD payments cover the remainder of the rental cost (or the operating cost, in the case of public housing).

There are three major components of potential errors and improper payments in these complex programs:

1) Program administrator error – the program administrator's failure to properly apply income exclusions and deductions and correctly determine income, rent, and subsidy levels;

2) Tenant income reporting error – the tenant beneficiary's failure to properly disclose all income sources and amounts upon which subsidies are determined; and

3) Billing error – errors in the billing and payment of subsidies due between HUD and third party program administrators and/or housing providers.

From FY 2000 through FY 2006, HUD reduced the gross improper payments for the first 2 of these 3 categories of error from $3.22 billion to $1.34 billion, a reduction of 58.3 percent. The third component, billing error, in FY 2006 was estimated to be $180 million. The following chart provides a summary for all three error components for FY 2006 as compared to FY 2005 and the baseline year (FY 2000).

IMPROPER RENTAL ASSISTANCE PAYMENT ESTIMATES

Administration/ Error Type	2006 Subsidy Over-Payments*	2006 Subsidy Under-Payments*	2006 Net Erroneous Payments*	2006 Gross Erroneous Payments*	2005 Gross Erroneous Payments*	2000 Gross Erroneous Payments*
Public Housing						
Administrator Error	$119,472	$53,352	$66,120	$172,824	$220,464	$602,557
Income Reporting Error	101,050	0	101,050	101,050	109,000	294,000
Billing Error**	35,000	14,000	21,000	49,000	49,000	Not available
Subtotal:	**$255,522**	**$67,352**	**$188,170**	**$322,874**	**$378,464**	**$896,557**
Section 8 Voucher						
Administrator Error	$354,192	$165,828	$188,364	$520,020	$456,240	$1,096,535
Income Reporting Error	193,428	0	193,428	193,428	195,000	418,000
Billing Error**	50,000	22,000	28,000	72,000	72,000	Not available
Subtotal:	**$597,620**	**$187,828**	**$409,792**	**$785,448**	**$723,240**	**$1,514,535**
Total PHA Administered						
Administrator Error	$473,664	$219,180	$254,484	$692,844	$676,704	$1,699,092
Income Reporting Error	294,478	0	294,478	294,478	304,000	712,000
Billing Error**	85,000	36,000	$49,000	121,000	121,000	Not available
PHA Subtotal:	**$853,142**	**$255,180**	**$597,962**	**$1,108,322**	**$1,101,704**	**$2,411,092**
Total Project Based/Owner Administered						
Administrator Error	$174,540	$86,784	$87,756	$261,324	$248,580	$539,160
Income Reporting Error	90,512	0	90,512	90,512	55,000	266,000
Billing Error**	24,000	35,000	(11,000)	59,000	59,000	Not available
Project Based Subtotal:	**$289,052**	**$121,784**	**$167,268**	**$410,836**	**$362,580**	**$805,160**
Total Improper Payments						
Administrator Error	$648,204	$305,964	$342,240	$954,168	$925,284	$2,238,252
Income Reporting Error	384,990	0	384,990	384,990	359,000	978,000
Billing Error**	109,000	71,000	38,000	180,000	180,000	Not available
GRAND TOTAL:	**$1,142,194**	**$376,964**	**$765,230**	**$1,519,158**	**$1,464,284**	**$3,216,252**
TOTAL PROGRAM PAYMENTS				$27,505,331	$27,242,000	$18,800,000
IMPROPER PAYMENT RATE				5.5 %	5.4 %	17.1 %

* - Dollars in Thousands.

** - Billing error estimates are baselines established in FY 2004 for PHA Administrators and FY 2005 for Owner Administrators.

Program Administrator Error - HUD's update of the measure of program administrator rent and subsidy determination errors in FY 2006 found a 57.4 percent reduction in this improper payment component since FY 2000, from $2.238 billion to $954 million. Although the FY 2006 study indicated a small increase in gross dollars in erroneous payments compared to FY 2005, the independent research team determined it was not a statistically significant difference.

Tenant Income Reporting Error - HUD estimates that the total error attributable to tenant underreporting of income was $385 million in FY 2006, a decline of 61 percent from the FY 2000 baseline of $978 million. This was primarily attributable to implementation of HUD's Enterprise Income Verification System, which makes income data from the National Directory of New Hires available to local PHAs to allow them to conduct more effective and timely income verification for tenants. This FY 2006 level of income underreporting, however, represents an increase of approximately $26 million from the FY 2005 level. The increase was primarily due to three factors:

1) Revised Research Methodology. A revised research methodology was implemented in the FY 2007 study. This revised methodology was incorporated based on recommendations from HUD's Office of the Inspector General. The revisions were recommended to take advantage of the capabilities of the Enterprise Income Verification System, and required third party verification of income in instances where an income source was evident in quarters adjacent to the quarter being reviewed. These revisions broadened the rules used to identify unreported sources of income in the Database, thereby increasing the number of potential candidates with underreported income which required more third party verifications;

2) Increased Verification Response Rates. Employer response rates (i.e., third party verification rates) increased from the FY 2006 study to the FY 2007 study, which provided more complete information on which to determine and extrapolate unreported sources of income; and

3) Enterprise Income Verification Implementation and Use. The implementation of this Verification tool to HUD's Project Based Owners was delayed until FY 2008. Additionally, due to a need to learn the capabilities and benefits of this new Verification System and to change their existing business models, HUD's Public Housing Agencies did not fully incorporate the use of the Enterprise Income Verification system into their day-to-day operations.

HUD believes that the general downward trend in tenant income error will continue as the result of an improved methodology for reviewing income discrepancies identified through computer matching and third party verification to better determine actual cases of underreported income impacting subsidy levels. The reduction will also be facilitated by: technical assistance and training to minimize PHA errors; implementation of the Enterprise Income Verification system in multifamily housing; and approval of a proposed rule, which was published in FY 2007 and which is planned for final implementation in late FY 2008, that will mandate use of the Enterprise Income Verification system.

Billing Cycle Error – Billing errors occur when program administrators submit billings or payment vouchers to HUD for activities and amounts that: deviate from allowable HUD contract terms and conditions; differ from local rent rolls and subsidy determinations; or pertain to allowable subsidies or utility allowances that are not properly remitted to participating landlords or tenants.

Changes to the manner in which the public housing and voucher programs are funded as well as the Office of Housing's enforcement of Project-Based Contract Administrators should reduce the opportunity for billing error. In any event, HUD's increased review of payment vouchers and on-site monitoring of support for vouchers is key to reducing this component of improper payments.

HUD will continue to take aggressive steps to address the causes of improper rental assistance payments to ensure that the right benefits go to the right people. Based on the above results for the three types of rental assistance error, as well as plans to address known causes and levels of improper payments, HUD provides the statistical results for FY 2006 and the outlook for improper payment percentages on a combined program basis from FY 2007 to FY 2009, as follows:

Rental Assistance Improper Payment Reduction Outlook
FY 2006 – FY 2009
(Dollars shown in billions)

Activity	FY 2005 Payments	FY 2005 IP $	FY 2005 IP % Goal/Actual	FY 2006 Payments	FY 2006 IP $	FY 2006 IP % Goal/Actual	FY 2007 IP % Goal	FY 2008 IP % Goal	FY 2009 IP % Goal
Rental Assistance	$27.242	1.464	5.6 / 5.4	$27.505	1.519	5.0/5.5	5.0	3.0	2.5

* The annual Improper Payments calculation is based on prior year data. Accordingly, the FY 2007, FY 2008, and FY 2009 goals will be reported in the FY 2008, FY 2009, and FY 2010 PARs respectively.

The FY 2007 Goal was revised based on the aforementioned change in research methodology, the increase in third party verification response rates, and the delay in EIV implementation for HUD's Project Based/Owner Administered housing until FY 2008, coupled with the need to improve PHA usage of the capabilities of the EIV system. HUD believes that the goals for FY 2007 and beyond are realistic and achievable.

Further information on HUD's efforts to reduce improper rental housing assistance payments is provided in Indicator E4.1 in Section 2 of this report.

Recovery Auditing Activity

In addition to the requirements of the IPIA, Section 831 of the Defense Authorization Act of 2002, and OMB guidance, require agencies that enter into contracts with a total value in excess of $500 million in a fiscal year to carry out a cost-effective program for identifying errors made in paying contractors and for recovering amounts improperly paid to contractors. In FY 2003 HUD hired a contractor to conduct an independent recovery auditing review. In its study, HUD's contractor performed a detailed review on contracts with a value of $206.5 million to determine the potential universe of contracts for which recovery auditing was appropriate. Their review identified potential recoveries of only $46,650 on two contracts, which they referred to HUD for validation. Further work by HUD's Contracting Officer and Government

Technical Representative validated these payments as being proper and correct. As a result, no recoveries were realized from the contractor's efforts.

The current internal controls present in HUD's contract payment and contract close-out process are adequate to reduce the risks of overpayments. HUD continues to focus on strengthening its funds control processes, increasing training classes for Government Technical Representatives and Government Technical Monitors, and further improving the contract close-out process. Therefore, HUD concluded that a recovery auditing program would not be cost beneficial and is not warranted.

UNITS/HOUSEHOLDS RECEIVING HUD ASSISTANCE

	2004	2005	2006	2007
Section 8 Low Income Rental Assistance Program:				
Tenant-based assistance (a)	2,087,344	2,056,430	2,084,917	2,110,000
Project-based assistance	1,309,427	1,306,740	1,287,529	1,286,662
Total Section 8	3,396,771	3,363,170	3,372,446	3,396,662
Public Housing Program	1,188,649	1,177,337	1,172,204	1,155,377
Sub-total	4,585,420	4,540,507	4,544,650	4,552,039
Housing for the Elderly Sec. 202	75,227	82,359	86,056	93,925
Housing for the Disabled Sec. 811	21,646	23,243	25,227	26,656
Tenant-based 811	14,447	14,739	14,634	14,836
Sub-total	111,320	120,341	125,917	135,417
Other Assistance Programs				
Homeownership Assistance Program (Section 235)	8,447	6,699	5,573	4,758
Rental Housing Assistance Program (Section 236)	346,802	322,083	318,561	298,046
Rent Supplement	17,290	17,239	16,619	15,041
Sub-total	372,539	346,021	340,753	317,845
Less estimated number of households receiving more than one form of assistance (double count)	(217,250)	(217,250)	(217,250)	(217,250)
Total, Public and Assisted Housing (a)	4,852,029	4,789,619	4,794,070	4,788,051
HOME Tenant-Based Assistance	15,479	20,554	23,325	18,172
HOME Rental Units Completed	23,392	33,612	47,598	28,039
HOME Homebuyer Units Completed	30,780	32,307	55,652	34,985
HOME Existing Homeowners Completed	10,112	14,832	16,821	11,221
HOME Total Households	79,763	101,305	143,396	92,417
CDBG Households	159,703	166,992	177,314	151,107
Self Help Homeownership Opportunity Program New Homebuyers (b)	1,735	2,277	1,868	1,887
Housing Opportunities for Person With AIDS Households	70,779	70,325	67,000	67,850
Indian Housing Block Grant Households	7,700	8,606	8,027	6,168
Rural Housing & Economic Development	NA	NA	NA	NA
Native Hawaiian Homeland Block Grant Households	NA	72	23	65
Total of CDBG, HOME, Self Help Homeownership Opportunity Program, Housing Opportunities for Persons With AIDS, Indian Housing Block Grant, Rural, Title VI Native Hawaiian Homeland Block Grant, Households Served	319,680	349,577	397,628	319,494

(a) In FY 2004 the number of contracted units is displayed. Beginning in FY 2005, figures represent HUD's estimate of funded units.

(b) This number is for the period July 1, 2006 to June 30, 2007. Fourth quarter data were not available in time for publication of the PAR.

Funded units are the number of units leased during a snapshot in FY 2004 with increases for new tenant protection vouchers in FY 2005, FY 2006, and FY 2007. Disaster assistance vouchers are not included.

NA-Not Available

FINANCIAL MANAGEMENT SYSTEMS
AS OF SEPTEMBER 30, 2007

TOTAL: 42
TOTAL Non-compliant: 2

COMPLIANT SYSTEMS - 40

Office of Administration (2)

D67A	Facilities Integrated Resources Management System (FIRMS) **
P162	HUD Integrated Human Resources Training System (HIHRTS)

Office of Chief Financial Officer (15)

A21	Loan Accounting System (LAS)
A39	HUD Consolidated Financial Statement System (HCFSS) (Hyperion)
A65A	Section 235 Automated Validation and Editing (SAVE)
A67	Line of Credit Control System (LOCCS)
A75	HUD Central Accounting and Program System (HUDCAPS)
A91	Consolidated Cost and FTE Files (CCFF)
A96	Program Accounting System (PAS)
D08	Bond Payment System (BONDMAPPER)
D21	Departmental Accounts Receivable Tracking / Collection System (DARTS)
D61	EZBudget Budget Formulation System (EZB)
D65A	Section 8 Budget Outlay Support System (BOSS)
D91A	Total Estimation and Allocation Mechanism –Resource Estimation and Allocation Process (TEAM-REAP)
H18	Integrated Automated Travel System (IATS)
P001	HUD Travel Management System (HTMS)
P221	Electronic Travel System Interface (eTravel)
HIFMIP	HUD Integrated Financial Management Improvement Project *

Community Planning and Development (2)

C04	Integrated Disbursement & Information System (IDIS)
C38	Special Needs Assistance Program (SNAPS)

Government National Mortgage Association (1)

P237	Ginnie Mae Financial & Accounting System (GFAS)

* In development; this system is not included in the total inventory count of 42
**Compliant, pending independent verification

Public and Indian Housing (2)

P113	Inventory Management System (IMS)
P232	Subsidy and Grants Info. System (SAGIS)*

Office of Housing (19)

A43	Single Family Insurance System (SFIS)
A43C	Single Family Insurance Claims Subsystem (CLAIMS)
A80B	Single Family Premium Collection System-Periodic (SFPCS-P)
A80D	Distributive Shares and Refund Subsystem (DSRS)
A80N	Single Family Mortgage Notes (SFMN)
A80R	Single Family Premium Collection System-Upfront (SFPCS-U)
A80S	Single Family Acquired Asset Management System (SAMS)
D64A	SF Housing Enterprise Data Warehouse (SFHEDW)
F12	Home Equity Conversion Mortgages (HECM)
F17	Computerized Home Underwriting Management System (CHUMS)
F42D	SF Default Monitoring Subsystem (SFDMS)
F47	Multifamily Insurance (MFIS)
F51	Institution Master File (IMF)
F71	Debt Collection & Assets Management System - Title I Notes (DCAMS)
F72	Title I Insurance and Claims (TIIS)
F75	Multifamily Insurance and Claims (MFIC)
F87	Tenant Rental Assistance Certification System* (TRACS)
P013	FHA Subsidiary Ledger (FHA-SL)
P057	Multifamily Delinquency and Default Reporting (MDDR)

NON COMPLIANT SYSTEMS - 2

Office of Chief Procurement Officer (2)

A35	HUD Procurement System (HPS)
P035	Small Purchase System (SPS)

Role of Program Evaluations and Research Studies in Assessing Program Performance

Each year, HUD completes a number of program evaluations and research studies related to significant policy issues. These studies provide a level of detail and confidence about the programmatic impacts that performance measures alone cannot capture. The Department uses the findings of this research to make informed decisions on HUD policies, programs, budget, and legislative proposals. This Appendix presents the primary findings of selected research reports completed since the beginning of FY 2007. Most of the reports are available from the Office of Policy Development and Research clearinghouse, HUD USER, which can be accessed at http://www.huduser.org.

Strategic Goal A: Increasing Homeownership Opportunities

The following studies relevant to Strategic Goal H were completed during FY 2007. HUD also publishes the U.S. Housing Market Conditions (quarterly), the American Housing Survey for specific metro areas (annually), and the American Housing Survey for the United States (biennially) to provide data analysis about housing markets. In addition to these survey reports, HUD, in collaboration with the Census Bureau, releases monthly statistics on new residential construction including starts, permits, inventories of unused permits, new housing units under construction and completions, and new residential sales such as new single-family sales, prices and inventories of unsold homes. HUD also publishes quarterly reports on the placement of new manufactured housing units and the absorption of new multifamily housing units.

Do First Time Home Buyers in the U.S. Improve Their Neighborhood Quality? This study examines how becoming a home buyer affects the quality of the neighborhood in which lower-income buyers live. Results from the study indicate that home buyers located in neighborhoods that were similar in quality to those in which they rented. Continuing renters, however, improved the quality of the neighborhoods between the first and second surveys, while home owners did not. This study also found that while the neighborhoods in which new buyers lived are improving, they are doing so at a slower rate than both the neighborhoods from which they moved and those of the continuing renters.

Ideas That Work: Building Communities Through Homeownership. This study offers practical advice on how to establish homeownership programs. It draws on the experiences and successes of HUD's Office of University Partnerships grantees nationwide who have developed and implemented a variety of programs and initiatives that promote homeownership. This study also outlines the unique academic resources that institutions of higher education can bring to the process of designing community-based homeownership programs; describes how the institutions and their community partners can promote homeownership by either actively building affordable housing, marketing community neighborhoods to prospective homeowners, or developing a comprehensive neighborhood revitalization strategy of which homeownership is only a part; focuses on services that local partnerships can provide directly to prospective homeowners; and presents several unique programs through which grantees support homeownership by training the individuals who will eventually build and finance owner-occupied homes.

Interim Evaluation of HUD's Homeownership Zone Initiative. HUD launched the Homeownership Zone demonstration program in 1996 as part of a national strategy to expand homeownership. The demonstration was intended to test the idea that a well-designed, large-scale, mixed-income homeownership housing development could transform a blighted neighborhood into a stable, vibrant community where families would want to live. This interim evaluation of participating cities took place in 2004 – 2005 to collect baseline date. A final evaluation will be conducted at the end of the demonstration program to assess how well each city has implemented its plan, and to identify best practices for transforming deteriorated neighborhoods using mixed-income homeownership development.

Assessment of the 602 Non-Profit Disposition Program. HUD's 602 Nonprofit Property Disposition program sells HUD-held single-family homes at deep discounts to units of general local government and nonprofits. The homes are then rehabilitated and resold, providing homeownership opportunities to low- and moderate-income households while helping revitalize troubled neighborhoods. The Department has sponsored research to identify appropriate baseline information and an associated analytic structure for future evaluations of the 602 Program. This report describes the evaluation strategy and the prospective statistical analysis developed; discusses short-term progress of the program in three cities (Baltimore, Maryland; Salt Lake City, Utah; and Rochester, New York); and provides readers with a general understanding of the operations and potential benefits of the 602 program.

Measurement and Management of Mortgage Credit Risk in the United States: Implications for Emerging Mortgage Markets. This study describes the legal, regulatory, and institutional factors that make possible the effective identification, measurement, management, and mitigation of mortgage credit risk, with special emphasis on the role of government. Transparency in government actions, along with a functioning legal system that fully recognizes and respects personal property rights, are found necessary for the development of market mechanisms that can effectively manage credit risk. This report shows that the ability to properly assess, price, and mitigate credit risk is critical for success in developing emerging mortgage markets.

Strategic Goal B: Promote Decent Affordable Housing

Affordable Housing Needs 2005: Report to Congress. This report is the tenth in a series of Worst Case Needs reports to Congress. Households with "worst case needs" are defined as unassisted renters with very low incomes (below 50 percent of area median income), who pay more than half of their income for housing or live in severely inadequate housing. In addition to examining the experience of renters, their income, and the amounts they pay in rent, this study also explores the availability of affordable rental housing and how these supply issues may affect worse case needs. The report examines the duration of severe rent burdens, and includes a new analysis of how worst case needs relate to neighborhood poverty rates. The report allows policymakers to monitor the continued, significant need for housing among very low-income households across the nation.

Best Practices for Effecting the Rehabilitation of Affordable Housing - Volume 1: Framework and Findings; Volume 2: Technical Analyses and Case Studies. The rehabilitation of affordable housing faces many institutional and regulatory barriers. Because the existing stock varies so much in condition, age, and construction methods, the rehabilitation process is far less predictable and in many ways more challenging than new construction. Nevertheless, the rehabilitation of the country's aging stock is a major resource for meeting the nation's affordable housing needs. This two-volume report distills the practices that have been shown to work in many settings to implement the renovation of affordable housing. These best practices are designed to address the challenges to rehabilitation at its development, construction, and occupancy stages. Volume 1 is a comprehensive resource guide to state, local, and federal tools for overcoming barriers. Volume 2 provides analyses of key rehabilitation resources and barriers, and case studies of state and local efforts to overcome major regulatory impediments.

Impact Fees: Equity and Housing Affordability. Impact fees are one-time charges applied to new development. Impact fees are a form of land-use regulation designed to assure that communities maintain adequate levels of public facilities in the face of growth. This study finds that impact fees are not the best method to finance most public facilities from a variety of theoretical perspectives; rather, taxes are preferable. The study concludes, however, that elected officials may see impact fees as a pragmatic solution when they lack legal or political ability to raise taxes yet desire to maintain level-of-service quality in their communities.

Synthesis of Findings from the Study of Affordable Housing Plus Services for Low- and Modest-Income Older Adults. This study examined the literature on integrating affordable housing with health and supportive services for older adults, developed an inventory of promising Affordable Housing Plus Services strategies and programs, and brought together several hundred stakeholders from the fields of affordable housing and aging services in four workshops convened in four regions of the country. The study found a wide variety of Affordable Housing Plus Services programs in operation, typically at the initiative of individual housing providers.

Strategic Goal C: Strengthen Communities

Effects of Housing Vouchers on Welfare Families. This report presents the final analysis of a study conducted over several years to measure the impacts of Housing Choice Vouchers on the housing mobility of low-income families, the characteristics of their neighborhoods, the composition of their households, their employment, earnings, participation in education and training, their receipt of public assistance, their poverty and material hardship, and the well-being of their children. The analysis, based on a six-site research sample of 8,731 families, uses an experimental design and makes use of outcome measures derived from tract-level Census data, person-level administrative data, and a follow-up survey. The impact estimates in this report encompass a follow-up period that is sixteen quarters in duration for all sites, and longer for some sites. Augmenting the experimental findings are insights from intensive interviews with a sample of 141 families.

Annual Homeless Assessment Report to Congress. This report marks the first time since 1984 that HUD has reported the number of homeless people in the United States. The Department used electronic person-based Homeless Management Information System data and locally implemented homeless counts to arrive at the number of sheltered and unsheltered homeless people, estimated at 335,000 on an average day, as well as the characteristics of homeless people living in shelters. The report offers a baseline for future reports that will explore patterns of homelessness over time.

Applicability of Housing First Models to Homeless Persons with Serious Mental Illness. This report presents the findings from an exploratory study of the Housing First approach of providing permanent supportive housing to single, homeless adults with mental illness and co-occurring substance-related disorders. In recent years, Congress and the leadership of the

Department of Housing and Urban Development have encouraged the development of permanent housing for homeless people.

Study of Subdivision Requirements as a Regulatory Barrier. This study addresses the characterization on a national basis of the regulatory cost barriers associated with land subdivision, specifically barriers to the subdivision of land that can be developed with single-family detached dwellings. Prior to this study, this issue had been addressed only on a very small geographic scale and had not been examined at the national level.

Strategic Goal D: Ensure Equal Opportunity In Housing

Testing HUD's New Mortgage Disclosure Forms With American Homebuyers. On July 29, 2002, the Department of Housing and Urban Development proposed a new rule under the Real Estate Settlement Procedures Act to simplify and improve the process for consumers to obtain home mortgages. Between 2003 and 2004, HUD tested several versions of mortgage disclosure forms, including a Good Faith Estimate and Mortgage Package Offer form, in several locations throughout the United States. These reports describe the development and testing of forms to improve borrower comprehension of the information and eliminate potential bias against mortgage brokers. The final round of testing showed that participants using the Good Faith Estimate form were highly successful in identifying the least expensive loans, with success rates exceeding 90 percent regardless of whether the offer was made by a lender or mortgage broker or if the two offers cost the same. The work has implications for policy addressing homeownership in general as well as predatory lending.

Subprime Lending and Alternative Financial Service Providers: A Literature Review and Empirical Analysis. This report examines subprime lending and the prevalence of alternative financial service providers such as check cashers, payday lenders, and pawnshops, using a common lens to investigate the extent of similarities and differences in the prevalence of these activities in low-income and minority communities. The trends cause concern because of high fees for their services and disproportionate targeting of low-income and minority households, and the absence of banks from low-income and minority communities that contribute to their growth. The first part of the report reviews the literature related to subprime lending and alternative financial service providers, and examines how regulation of financial services can affect banking services, capital availability, and consumer protection in these markets. The second part of the report analyzes the association between neighborhood characteristics (including race-ethnicity, income, and credit risk measures) and the patterns of subprime lending and location of alternative financial service providers and banks in the Dallas metropolitan area.

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

Quality Control for Rental Assistance Subsidies Determinations: Final Report for FY 2006. Findings for the 2006 Quality Control report show that the percent of errors is no longer declining when compared with results from previous studies. The study found that HUD paid approximately $648 million in excess housing subsidy payments in FY 2006, up from $584 million in FY 2005. Additionally, there was about $306 million in subsidy underpayment resulting from tenants overpaying their rents, for a net subsidy cost of about $342 million in 2006.

If you have any questions or comments, please call

Frank Murphy
Assistant Chief Financial Officer for Financial Management
at 202-402-3466.

Written comments or suggestions for improving this report
may be submitted by mail to:

U.S. Department of Housing and Urban Development
451 7th St. SW, Room 2210
Washington, DC 20410
Attention: Frank Murphy
Assistant Chief Financial Officer for Financial Management

Or by e-mail to
Frank.J.Murphy@hud.gov

For additional copies of this report, please call the
CFO's Office for Financial Management

at 202-402-6544
or e-mail Anthony.A.Twyman@hud.gov

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