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Report to Congressional Committees

June 2006

HUD HOMEOWNERSHIP PROGRAMS

Data Limitations Constrain Assessment of the American Dream Downpayment Initiative

GAO-06-677

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Data Limitations Constrain Assessment of the American Dream Downpayment Initiative

GAO Accountability·Integrity·Reliability

Highlights

Highlights of GAO-06-677, a report to congressional committees

Why GAO Did This Study

While at an all-time high level, homeownership remains out of reach for many Americans, especially low-income families and minorities. In 2003, Pub. L. No. 108-186 created the American Dream Downpayment Initiative (ADDI) to help low-income, first-time homebuyers cover the up-front costs of buying a home (up to the greater of $10,000 or 6 percent of the purchase price) and authorized funding through fiscal year 2007. The Department of Housing and Urban Development (HUD) allocates ADDI funds to over 400 jurisdictions (e.g., states, cities, and counties). Pub. L. No. 108-86 directed GAO to perform a state-by-state analysis of ADDI's impact. This report discusses (1) HUD-reported information on ADDI expenditures and assisted households, and the limitations on the quality of these data and (2) the views of officials from selected jurisdictions on factors that affected their ability to use their funds and on the program's impact.

What GAO Recommends

GAO recommends that, if Congress reauthorizes ADDI beyond fiscal year 2007, HUD develop and implement controls and issue guidance—seeking funds to do so, if necessary—that would ensure that the expenditures and accomplishments attributed to ADDI are accurate. HUD did not comment on our recommendations but disagreed with the report's assessment of the implications of the agency's data limitations.

www.gao.gov/cgi-bin/getrpt?GAO-06-677.

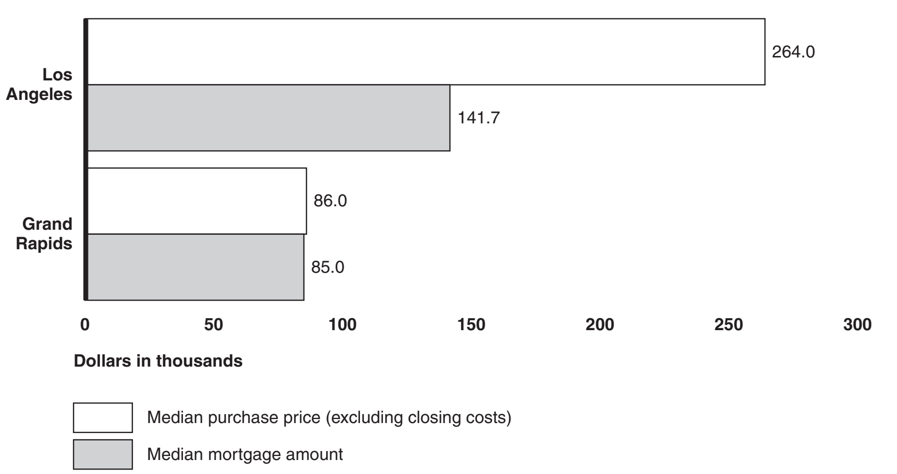
To view the full product, including the scope and methodology, click on the link above. For more information, contact David G. Wood at (202) 512-8678 or woodd@gao.gov.

What GAO Found

Based on data collected through its Integrated Disbursement and Information System (IDIS), HUD reported that through December 31, 2005, jurisdictions had spent $98.5 million of the $211 million appropriated for ADDI, helping more than 13,000 families—nearly half of which were minorities—become homeowners. At the state level, reported expenditures ranged from $0 to $10.3 million, and the number of projects (assisted households) ranged from 0 to 985. However, because of data limitations in IDIS and HUD's inconsistent guidance to jurisdictions on data entry, these figures include an unknown number of non-ADDI projects that provided down-payment assistance to first-time homebuyers. As a result, the expenditures and accomplishments attributable to ADDI are not known. HUD officials said that it was not feasible to create a control for ADDI in IDIS by the time the program began and that to do so now would be costly.

Although most of the 40 jurisdictions GAO contacted have used some portion of their ADDI grants, officials from many jurisdictions said that the combination of high housing prices and the low incomes of eligible families made it challenging to spend their funds. In higher-cost areas, such as Los Angeles, California, jurisdictions must combine numerous subsidies with ADDI funds to bridge the gap between home prices and homebuyers' mortgages. However, in lower-cost areas, such as Grand Rapids, Michigan, ADDI alone is sufficient to make up the difference (see fig.). Officials from the jurisdictions GAO contacted indicated that ADDI has not had a significant impact on local homeownership rates because the program has been modestly funded and is relatively new. In addition, some jurisdictions reported difficulties in serving populations that the program targeted for outreach, such as recipients of rental housing assistance.

Difference between the Median Purchase Price and Median Mortgage for Homes Purchased with ADDI Assistance in Los Angeles, CA and Grand Rapids, MI



Source: GAO.

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Abbreviations

ADDI	American Dream Downpayment Initiative
CDBG	Community Development Block Grant
FHA	Federal Housing Administration
HAF	Homebuyer Assistance Fund
HAP	Homebuyer Assistance Program
HRA	Housing and Redevelopment Agency
HOME	HOME Investment Partnerships program
HUD	Department of Housing and Urban Development
IDIS	Integrated Disbursement and Information System
LAHD	Los Angeles Housing Department
PSID	Panel Study of Income Dynamics

GAO
Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, D.C. 20548

June 30, 2006

The Honorable Richard C. Shelby
Chairman
The Honorable Paul S. Sarbanes
Ranking Minority Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Michael G. Oxley
Chairman
The Honorable Barney Frank
Ranking Minority Member
Committee on Financial Services
House of Representatives

Although the national homeownership rate has reached an all-time high of 69 percent, homeownership is out of reach for many Americans, especially low-income families and minorities. Recognizing that homeownership has the potential to help families achieve long-term financial stability and revitalize and stabilize communities, the federal government has long sought to make ownership more affordable for American families. Most recently, Congress in 2003 passed the American Dream Downpayment Act (Act), which created the American Dream Downpayment Initiative (ADDI) under the Department of Housing and Urban Development's (HUD) HOME Investment Partnerships (HOME) program. The purpose of ADDI is to help eligible low-income households become homeowners by providing funds for a down payment, closing costs, and, if necessary, rehabilitation work done in conjunction with a home purchase.[1] The Act authorized funds for ADDI for fiscal years 2004 through 2007.[2]

[1]Pub. L. No. 108-186. To be eligible for ADDI funds, households must be both low-income and first-time homebuyers, as defined by 42 U.S.C. § 12704. Eligibility does not indicate that the household is creditworthy or capable of obtaining a mortgage with or without ADDI or other assistance.

[2]Prior to the Act, the Consolidated Appropriations Resolution of 2003 (Pub. L. No. 108-7) authorized and appropriated $74.5 million in fiscal year 2003 funds specifically for down-payment assistance under an existing program. The fiscal year 2003 funds generally can be used for the same purposes as funds authorized by the Act and are considered ADDI funds as a practical matter. However, some of the rules governing the fiscal year 2003 funds significantly differ from the rules for funds appropriated for subsequent fiscal years.

Like the HOME program as whole, ADDI provides formula-based grants to participating jurisdictions (i.e., states, cities, counties, or consortiums of cities and counties), which can administer these grants on their own, or with or through third parties or subgrantees. However, ADDI funds are subject to certain restrictions that do not apply to other HOME funds. The jurisdictions may use ADDI grants only for down-payment, closing cost, and rehabilitation assistance to low-income, first-time homebuyers who are purchasing homes priced within limits under HUD's Section 203(b) single-family mortgage insurance program, which vary by location. In contrast, jurisdictions may use other HOME funds to purchase, construct, or rehabilitate affordable housing for rent or ownership by low-income households, or provide down-payment assistance or direct rental assistance to low-income households. Unlike other HOME funds used for homeownership assistance, the amount of ADDI assistance per homebuyer is limited to $10,000 or 6 percent of the purchase price, whichever is greater.[3] However, jurisdictions can combine ADDI assistance with other funding sources (including other HOME funds) to assist eligible households.

HUD maintains information about ADDI projects in a central database. More specifically, HUD requires participating jurisdictions to enter information for each household (project) they assist into HUD's Integrated Disbursement and Information System (IDIS)—which collects information on activities funded by a number of grant programs (including the HOME program) administered by HUD's Office of Community Planning and Development. For example, the jurisdictions enter for each project the amount of assistance provided and certain characteristics of the assisted households. HUD uses the data in IDIS to monitor participating jurisdictions and to generate reports. One of these is the ADDI Accomplishment Report, which provides information on ADDI program expenditures and reported accomplishments for each jurisdiction. In general, HUD considers ADDI funds and other HOME funds used for down-payment assistance to be expended when a participating jurisdiction

[3]Projects using other HOME funds are subject to the HOME per-unit subsidy limits established under Section 221(d)(3)(ii) of the National Housing Act (12 U.S.C. § 17151(d)(3)(ii)). The subsidy limit varies by participating jurisdiction, and by property type and size within a jurisdiction. For example, the maximum per-unit subsidy for a three-bedroom, single-family home in Chicago, Illinois, was approximately $175,000 in 2005. In comparison, the maximum amount of assistance that ADDI could have provided was $16,500 (6 percent of $275,200, the HUD purchase price limit for a single-family home in Chicago).

disburses funds to an eligible homebuyer and indicates the project status as "complete" in IDIS.

The Act directed GAO to perform a state-by-state analysis of the impact of ADDI grants. To do this, we first obtained IDIS data on the amount of ADDI funds that HUD allocated to each state's participating jurisdictions and the amount they used to assist homebuyers. However, we found significant limitations with the quality of these data. Accordingly, this report discusses (1) HUD-reported information on ADDI expenditures and assisted households from the program's inception through December 31, 2005, and the limitations on the quality of these data and (2) the views of officials from selected jurisdictions on factors that affected their ability to use ADDI funds and on the program's impact.

To address these objectives, we reviewed the laws, regulations, and agency guidance relevant to ADDI. We also analyzed the data from HUD's ADDI Accomplishment Report and reviewed guidance and other documentation for IDIS. We performed limited electronic testing on HUD's ADDI data to detect obvious errors and checked the reliability of the HUD-reported ADDI expenditure data against information from 33 selected participating jurisdictions. We visited 13 participating jurisdictions—four states, 6 cities, and three consortiums—that we selected to cover different geographic regions, housing markets, and jurisdiction types. Also, we interviewed officials from a selection of 27 additional jurisdictions—nine states, 11 cities, three counties, and four consortiums—designed to cover the four types of jurisdictions and those with relatively high and low funding allocations and expenditure levels, according to HUD's data.[4] We did not generalize the results of our interviews to the entire population of jurisdictions that received an ADDI allocation because we contacted only a small selection of jurisdictions. Further, the limitations of HUD's data did not allow us to draw any conclusions about the program's accomplishments.

Appendix I contains a more detailed description of our scope and methodology and a list of the jurisdictions we contacted. We conducted our work in Washington, D.C., and Chicago, Illinois, from July 2005 through

[4]While we contacted or visited a total of 40 jurisdictions, we excluded 7 of them from our reliability check of HUD's ADDI expenditure data because our contacts occurred while we were still developing our methodology.

June 2006, in accordance with generally accepted government auditing standards.

Results in Brief

Based on data in IDIS from participating jurisdictions nationwide, HUD reported that through December 31, 2005, the jurisdictions had expended $98.5 million of the $211 million appropriated for ADDI and had helped more than 13,000 low-income households—nearly half of which were minorities—become homeowners. At the state level, reported expenditures ranged from $0 (South Dakota) to $10.3 million (California), and the number of assisted households ranged from 0 (South Dakota) to 985 (Ohio). IDIS data also indicated, among other things, that about one-third of the assisted households earned less than 50 percent of the median income for their areas, and the remaining two-thirds earned 50 to 80 percent. However, because of internal control weaknesses in HUD's process for designating ADDI projects in IDIS, these figures actually include an unknown number of non-ADDI HOME projects that provided down-payment assistance to first-time homebuyers.[5] Specifically, (1) IDIS does not contain a discrete control to distinguish ADDI projects from non-ADDI HOME projects and (2) HUD did not provide clear and consistent guidance to jurisdictions on how to distinguish between the two in IDIS. As a result, the expenditures and accomplishments attributable to ADDI are not known and the data HUD reports for the program, including the characteristics of the assisted households, do not represent exclusively ADDI projects. HUD officials said that they did not create a discrete ADDI control in IDIS because a reengineering of IDIS was nearly complete when the program was enacted, redesigning IDIS would have taken several years and would not have been cost-effective given ADDI's modest size and limited authorization period, and the first-time homebuyers receiving ADDI and other HOME funds are from the same population.

Although most of the jurisdictions we contacted (representing about 9 percent of all jurisdictions that received an ADDI allocation since the program began) have used some portion of their ADDI grants, jurisdiction officials cited several factors that affected their ability to spend their funds and indicated that the program's impact has been limited. For example, officials from many of these jurisdictions said that a combination of high housing prices, the low incomes of eligible families, and the program's per-

[5]Throughout this report, we use the term "non-ADDI HOME" to refer to HOME projects that provided down-payment assistance to first-time homebuyers and did not use ADDI funds.

household assistance limits made it challenging to expend their funds. Officials from some of the higher cost selected jurisdictions told us that many eligible households often cannot afford to purchase even less expensive homes without large amounts of assistance to reduce their mortgage loans to affordable levels. In the City of Los Angeles, for instance, the difference between the median purchase price (excluding closing costs) and the median mortgage amount for homes purchased with ADDI assistance was approximately $122,000. To help bridge such large gaps, many of the selected jurisdictions have developed homeownership programs that provide multiple subsidies, including ADDI funds, to eligible homebuyers. Some of these programs are complex, utilizing several sources of assistance, and can be time consuming to implement because jurisdiction officials need to assess a family's eligibility for each subsidy. Though ADDI has helped low-income households become homeowners, officials from the large majority of jurisdictions we contacted said that the program was too modestly funded and new to have had a significant impact on local homeownership rates. In addition, officials from several jurisdictions we contacted said that they have had difficulties serving certain populations that the program targeted for outreach, including recipients of rental housing assistance (due to lack of sufficient income to become homeowners, even with down payment assistance) and residents of mobile home parks (due to difficulties in marketing the program to them).

To ensure that ADDI expenditures and accomplishments are accurately reported, we recommend that if Congress authorizes ADDI beyond fiscal year 2007, the Secretary of HUD (1) develop and implement a discrete control in IDIS that distinguishes ADDI projects from non-ADDI HOME projects, seeking funds to do so if necessary, and (2) issue guidance to participating jurisdictions on how to use this control to enter consistent data on ADDI projects into IDIS. We obtained comments on a draft of this report from HUD. HUD did not comment on our recommendations but disagreed with the report's emphasis on data limitations and our assessment of the effect of these limitations on management and oversight of the program. HUD's comments are discussed in the Agency Comments and Our Evaluation section, and its written comments appear in appendix VI.

Background

According to numerous studies, the most significant barrier to homeownership is having money for a down payment and closing costs. Other related studies also have shown that, on average, low-income and minority families have lower levels of accumulated wealth (savings) than higher-income and nonminority families. (See app. II for a summary of studies on barriers to homeownership). This disparity is reflected in the gap in homeownership rates between the different populations (see table 1).[6]

Table 1: Homeownership Rates by Race/Ethnicity and Income Band, 2001

	Income band					
Category Race/ethnicity	**<50%**	**50-79.9%**	**80-99.9%**	**100-120%**	**>120%**	**All households**
White	59.2%	68.4%	75.2%	79.6%	88.1%	74.2%
Black	33.4	51.7	59.4	63.2	76.2	48.5
Hispanic	28.2	44.4	55.2	59.0	76.9	46.4
Asian	28.4%	48.1%	51.6%	63.3%	72.3%	53.2%

Sources: HUD and U.S. Census Bureau.

Note: Income band is the percentage of national median income.

Signed into law in December 2003, the American Dream Downpayment Act amended the Cranston-Gonzalez National Affordable Housing Act to create ADDI, which, according to HUD, aims to increase the homeownership rate, especially among lower income and minority households.[7] The Act authorized up to $200 million annually for fiscal years 2004 through 2007 for down-payment, closing cost, and limited rehabilitation assistance for low-income families—those earning no more than 80 percent of the median income for their area, adjusted for family size—who are first-time homebuyers.[8] Prior to the Act, the Consolidated Appropriations Resolution of 2003 authorized and appropriated $74.5 million in fiscal year 2003 funds specifically for down-payment assistance under the HOME program. (As explained in app. III, some of the rules for allocating and using fiscal year

[6]The homeownership rate is the number of households that own their homes divided by the total number of households.

[7]42 U.S.C. § 12821.

[8]A first-time homebuyer is an individual and his or her spouse who has not owned a home during the 3-year period prior to purchase of a home with ADDI assistance; or a displaced homemaker or single parent who, even if while married, owned a home with his or her spouse or resided in a home owned by the spouse. 42 U.S.C. § 12704.

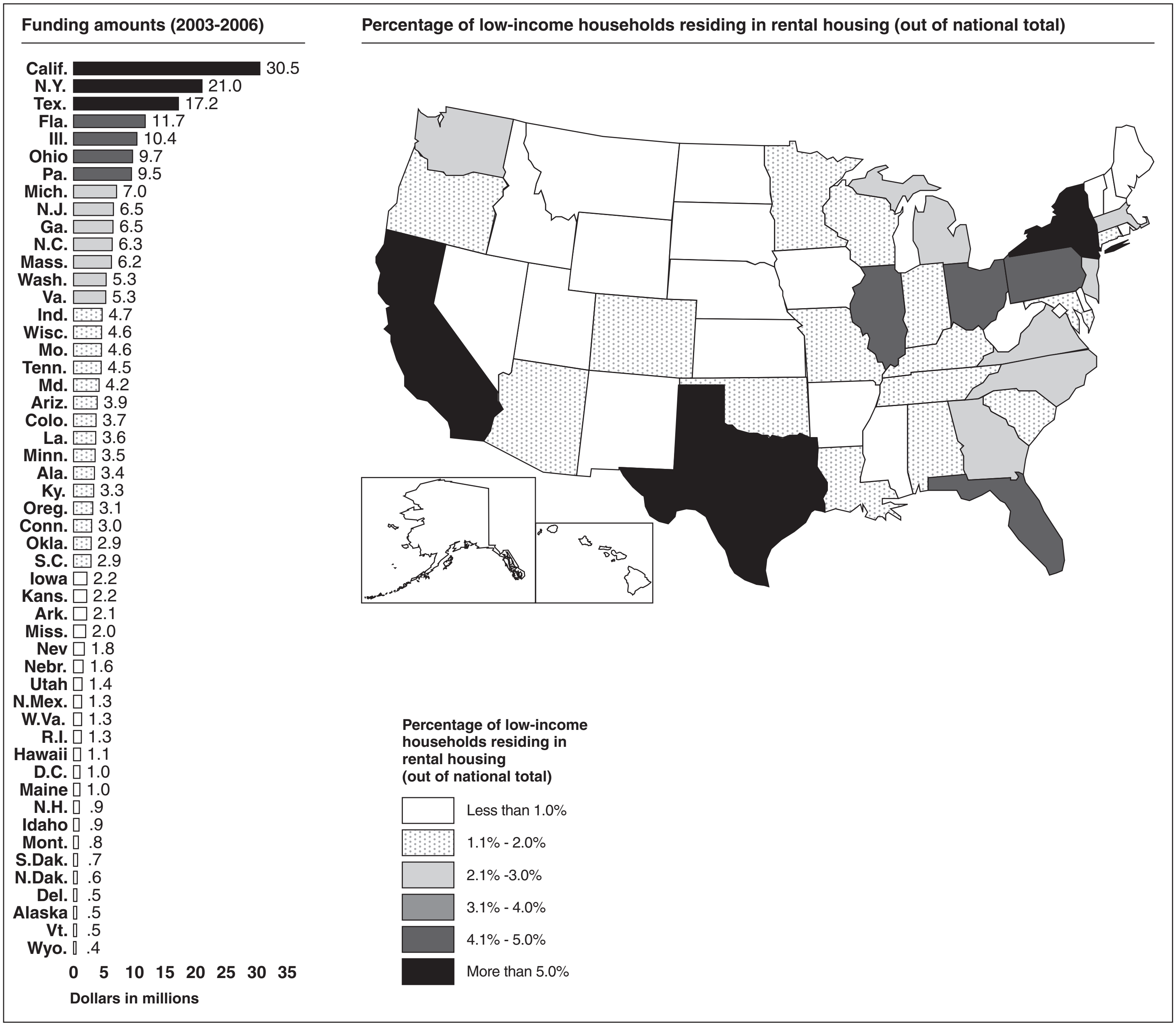
2003 ADDI funds are significantly different from the rules for funds appropriated for subsequent fiscal years). Participating jurisdictions could not expend ADDI funds until April 2004, when HUD issued interim regulations for the program.

Down-payment assistance is one of the multiple uses of HOME funds. Since the HOME program was created in 1990, total spending on down-payment assistance reached nearly $1.6 billion as of January 2006. For fiscal years 2001 through 2004, annual commitments for down-payment assistance under the HOME program (including ADDI since 2004) were relatively steady, averaging $156 million, but grew to nearly $203 million in fiscal year 2005.[9] In creating ADDI, Congress effectively set aside a portion of total HOME funding specifically for low-income, first-time homebuyers. ADDI appropriations peaked in fiscal year 2004 at $87 million, dropping to $49.6 million in fiscal year 2005 and to $24.8 million in fiscal year 2006.

Like the rest of the HOME program, ADDI is administered by participating jurisdictions, which receive funding allocations from HUD. Beginning with the fiscal year 2004 appropriation, HUD has allocated ADDI funds to the states based on the percentage of the national total of low-income renters residing in each state (as explained in app. III, ADDI funds provided in the fiscal year 2003 appropriation were distributed differently). The aggregate funding amounts for fiscal years 2003 through 2006, by state, are shown in figure 1.

[9]HUD did not have data on annual expenditures specifically for down-payment assistance prior to 2004. Commitment means that the jurisdiction has executed a legally binding agreement with a state recipient, subrecipient, or contractor to use a specific amount of HOME funds for a project. 24 C.F.R. 92.2. We obtained the figures on HOME expenditures and commitments from "acquisitions" data in HUD's National Production Report. According to HUD officials, these data are the only consistent measure of HOME down-payment assistance over time. We did not assess the reliability of these data. Since March 2004, HUD has captured down-payment assistance as a separate field in IDIS.

Figure 1: Percentage of National Total of Low-Income Renters and ADDI Allocations by State for Fiscal Years 2003-2006



Sources: GAO, 2000 Census, and HUD (data); Art Explosion (map).

A similar calculation, using the total numbers of low-income renters within each state, determines the amounts participating jurisdictions receive. Participating jurisdictions must have a population of at least 150,000 or otherwise qualify for an allocation of greater than $50,000 under the ADDI formula to receive program funding. The difference between a state's overall allocation and the total amount allocated to qualifying cities, counties, and consortiums (as well as any allocation a jurisdiction declines) within that state is administered by the state. Four hundred forty-five jurisdictions received an ADDI allocation in one or more fiscal years from 2003 through 2006. Jurisdictions must commit ADDI funds within 2 years of the date HUD obligates ADDI allocations and expend those funds within 5 years of that date.[10]

As a condition for receiving an ADDI funding allocation, HUD requires participating jurisdictions to include ADDI funds in their annual consolidated plans, which outline policies for addressing housing needs in their areas. Specifically, jurisdictions must describe how they plan to use ADDI funds; how they plan to conduct targeted outreach to recipients of rental housing assistance (through HUD's public housing and Housing Choice Voucher programs, for example) and residents of manufactured housing (e.g., mobile homes); and what actions they will take to ensure the suitability of families receiving ADDI assistance to undertake and maintain homeownership (e.g., through homebuyer counseling).[11] Jurisdictions typically administer their ADDI funds in one of three ways: (1) on their own; (2) in partnership with one or more third parties, such as nonprofit organizations or mortgage lenders; or (3) through subgrantees who administer the program on their behalf. ADDI regulations prohibit the use of ADDI funds for program administration costs; however, jurisdictions may use a portion of their other HOME funds for this purpose.

[10]Beginning with HUD's fiscal year 2002 appropriation (Pub. L. No. 107-73), a time limit was imposed on each year's total HOME appropriation. Funds that HUD has not obligated (including funds deobligated for a jurisdiction's failure to commit or expend them) by the required date must be returned to the Department of the Treasury. Prior to fiscal year 2002, the appropriations acts permitted HUD to recapture, reallocate, and reobligate HOME funds until expended.

[11]HUD offers rental assistance to low-income renters primarily through the public housing and Housing Choice Voucher programs. Under each program, HUD makes up the difference between a unit's monthly rental cost (or for public housing, the operating cost) and the tenant's payment, which is generally equal to 30 percent of the tenant's adjusted monthly income.

ADDI appropriations for fiscal year 2004 and later provide eligible families up to $10,000 or 6 percent of the purchase price of a home, whichever is greater, to apply toward a down payment and closing costs for the purchase of single-family housing (including one- to four-unit family dwellings, condominiums, cooperatives, and manufactured housing or a manufactured housing lot) that does not exceed HUD's purchase price limits. Except for the fiscal year 2003 appropriation, ADDI funds also may be used for rehabilitation in conjunction with the purchase of a home. However, a participating jurisdiction's rehabilitation assistance may not exceed 20 percent of its annual ADDI allocation. Jurisdictions can give ADDI assistance to eligible families in several forms, including interest- or noninterest-bearing loans or direct grants. Whatever the form of assistance, HUD regulations require that assistance be repaid, in full or in part, upon the sale of the home if the sale occurs within the "affordability period" (generally 5 to 10 years, depending on the amount of assistance).[12] Jurisdictions may combine ADDI funds with other subsidies—such as other HOME funds, Community Development Block Grant (CDBG) funds, Section 8 homeownership vouchers, or state and local funds—to make ownership more affordable for eligible households.[13]

[12]24 C.F.R. 92.254. The affordability period may extend to 15 years if a homebuyer receives $40,000 or more in ADDI and other HOME funds.

[13]The CDBG program is a HUD formula grant program that provides communities with resources to address a wide range of community development needs. CDBG funds may be used to provide direct homeownership assistance, including interest rate subsidies and down-payment and closing cost assistance, to low- and moderate-income families. The Section 8 Homeownership Voucher program allows eligible recipients of Housing Choice Vouchers to use their monthly subsidies to make payments on a mortgage. Assistance is available for 10 to 15 years, depending on the terms of the first mortgage.

HUD Reported That Participating Jurisdictions Spent About Half of Their ADDI Allocations, but These Data Contain an Unknown Number of Non-ADDI Projects

HUD reported that from the program's inception through December 31, 2005, participating jurisdictions had expended roughly half of the $211 million in ADDI appropriations and assisted more than 13,000 low-income households—nearly half of which were minorities—with a home purchase.[14] According to HUD, these data represent projects that met the agency's definition of ADDI projects in IDIS. However, because of weaknesses in HUD's internal controls for ADDI reporting, these data are a mix of ADDI and an unknown number of non-ADDI HOME projects; consequently, the expenditures and accomplishments attributable to ADDI are not known. More specifically, IDIS does not contain a discrete control to distinguish ADDI projects from non-ADDI HOME projects, and HUD provided inconsistent guidance to jurisdictions on how to distinguish between the two in IDIS. HUD officials said that it was not feasible to implement a discrete ADDI control in IDIS by the time ADDI began operating and that to do so now would be costly.

HUD Reported That Jurisdictions Expended About $99 Million through December 31, 2005, and That Nearly Half of the Households Were Minorities

According to HUD's ADDI Accomplishment Report, through December 31, 2005, jurisdictions had expended $98.5 million of the $211 million appropriated for ADDI through fiscal year 2005 and assisted 13,300 households, 48 percent of which were minorities. At the state level, reported expenditures ranged from $0 (South Dakota) to $10.3 million (California), and the number of assisted household ranged from 0 (South Dakota) to 985 (Ohio). HUD's Accomplishment Report indicated that half of the states expended more than $1 million each (see fig. 2). Appendix IV provides HUD-reported ADDI expenditures and accomplishments for each state. However, as discussed in the next section of this report, the ADDI data HUD reported are a mix of ADDI and non-ADDI HOME projects due to internal control weaknesses.

[14] The $211 million in appropriations is the sum of the appropriations for fiscal years 2003 ($74.5 million), 2004 ($87 million), and 2005 ($49.6 million).

Figure 2: HUD-Reported State ADDI Expenditures through December 31, 2005

ADDI expenditures	Number of states (Total: 51)[a]
Less than $100,000	1
$100,000 to $499,999	11
$500,000 to $999,999	14
$1,000,000 to $4,999,999	20
$5,000,000 to $10,499,999	5

Sources: GAO and HUD.

[a]Includes Puerto Rico, which received funding only for fiscal year 2003, in the $500,000 to $999,999 range.

HUD collects various data on households assisted through the HOME program, including ADDI, through IDIS. These data indicate, among other things, that from April 2004 (the month ADDI activity began) through December 31, 2005:

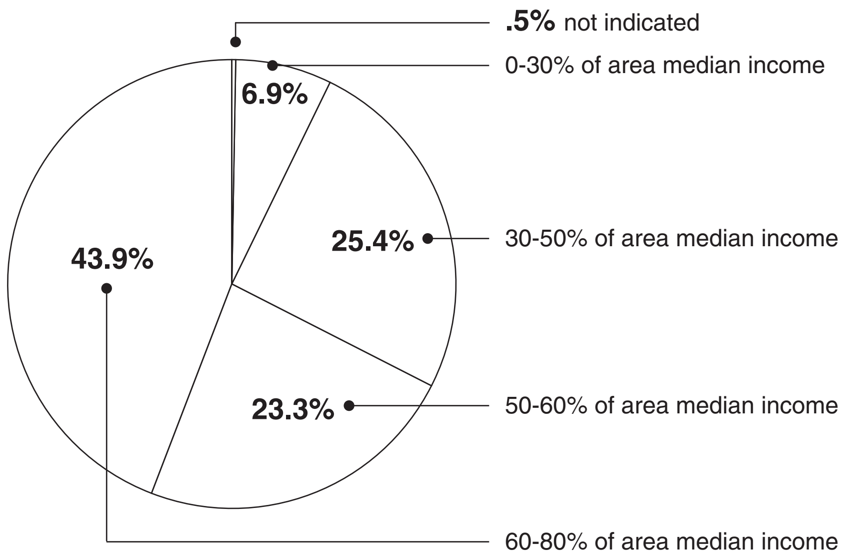
- 32 percent of the households assisted by ADDI were single-parent families.
- 20 percent of the mortgages used to purchase homes with ADDI assistance were insured by HUD's Federal Housing Administration (FHA).
- About one-third of the assisted households earned less than 50 percent of the median income for their areas, and the remaining two-thirds earned 50 to 80 percent (see fig. 3).

- 76 percent of the assisted households received some form of homebuyer counseling. (Jurisdictions are encouraged but not required to provide homebuyer counseling for ADDI or other HOME projects).[15]

Through its new Outcome Performance Measurement System, HUD plans to collect additional information on households assisted by HOME and the other formula grant programs funded by the agency's Office of Community Planning and Development. The system, which is scheduled for full implementation in fiscal year 2007, will aggregate, at the national and local level, information on the outcomes of the projects funded by the programs. Among other things, HUD will use the system to collect information on the number of HOME-assisted (including ADDI-assisted) households that previously received rental housing assistance.

[15]HUD's data on the characteristics of assisted households for this period are not directly comparable to the agency's ADDI Accomplishment Report because of differences in the number of projects reported. We did not check the reliability of the characteristics data; however, we found that a small number of these records did not indicate household income. HUD does not collect, or require, jurisdictions to collect information on the performance of non-FHA-insured mortgages used by HOME-assisted households because the agency is not required to do so and because of impediments the agency and jurisdictions would encounter in collecting these data from private market lenders.

Figure 3: HUD-Reported Income of Assisted Households, April 2004-December 2005



Sources: GAO and HUD.

Internal Control Weaknesses Allow Non-ADDI HOME Projects to Be Credited to ADDI

According to HUD officials, the agency initiated a wide-ranging redesign of IDIS in 2002 and, as part of these efforts, added new data elements (first-time homebuyer and down-payment costs) in anticipation of the possibility that Congress would eventually pass a down-payment assistance program of some kind. HUD released the redesigned IDIS in March 2004, shortly before the implementation of ADDI. According to HUD officials, because HUD was unable to anticipate all of the program features in the final law, the agency decided to establish rules in IDIS that used the new data elements and provided guidance to jurisdictions on entering data that were intended to capture information on ADDI projects to the extent possible. However, these rules are not sufficient to allow HUD to clearly distinguish ADDI projects from non-ADDI projects, and HUD's guidance to jurisdictions was inconsistent. Accordingly, HUD's internal controls for ADDI reporting do not meet GAO's *Standards for Internal Control in the Federal Government* because HUD cannot be certain that the ADDI expenditure and accomplishment data it reports are representative of

ADDI projects.[16] GAO's *Standards* call for controls that would appropriately classify projects so that the collected information maintains its relevance, value, and usefulness for controlling operations and making decisions.

No Mechanism to Distinguish ADDI from Non-ADDI HOME Projects

According to HUD officials, the agency did not create a control in IDIS that would distinguish ADDI from non-ADDI HOME projects for several reasons as follows:

- The most recent IDIS reengineering effort was nearing completion by the time ADDI was enacted.
- It was not feasible to redesign IDIS to separately track ADDI projects by the time the ADDI program began operating (HUD estimated several years for redesign).
- ADDI is part of the HOME program, and the first-time homebuyers receiving ADDI and other HOME funds are from the same population.
- To develop and implement such a control would not have been cost-effective given ADDI's modest size and the limited period (4 years) for which it was authorized.[17]

HUD officials said that, for these reasons, they faced a choice of not capturing any data on ADDI or implementing procedures that would capture data on projects that met the basic criteria for the program (i.e., down-payment assistance to first-time homebuyers) but that also included non-ADDI HOME projects. HUD officials stated that they recognized the limitations of these procedures but said that, under the circumstances, they made the best available choice. The officials said that the agency has no plans to update IDIS to include a discrete control for ADDI and estimated that to do so would be costly.

In lieu of creating such a control, HUD established rules in IDIS under which the agency credits ADDI with all of a jurisdiction's completed HOME

[16]GAO issued these standards as required by 31 U.S.C. §3512(c). Also see GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999) and GAO, *Internal Control Management and Evaluation Tool*, GAO-01-1008G (Washington, D.C.: August 2001).

[17]We did not independently estimate the cost of implementing such a control.

projects that provided down-payment assistance to first-time homebuyers in amounts within the ADDI per-household limits—up to the point at which the jurisdiction's ADDI allocations are exhausted.[18] After a jurisdiction's ADDI allocations are exhausted, HUD credits any remaining project assistance and all additional first-time homebuyer projects to other HOME funds.

In its HOME monitoring handbook, HUD acknowledged that, as a result of the IDIS limitation relating to ADDI designations, the agency's ADDI data contains a mix of ADDI and non-ADDI HOME projects. Specifically, the handbook states that the projects HUD credits to ADDI may not be the same projects that jurisdictions intended to use their ADDI funds for and classified them as such in their records. Consequently, the agency instructed HUD staff who monitor jurisdictions' administration of HUD programs to assess for compliance with ADDI requirements only those projects that jurisdictions designated as ADDI in their records and to assess all other projects for compliance with HOME requirements, regardless of whether HUD credited them to ADDI.

Inconsistent Guidance on Data Entry

The guidance HUD provided to jurisdictions for entering ADDI project data into IDIS is inconsistent and permits jurisdictions to enter inaccurate data. As a result, HUD cannot ensure that the data for all HOME projects that jurisdictions enter into IDIS are accurate and complete. According to GAO's *Standards*, agencies should provide clear and consistent guidance on data entry to prevent inaccuracies.

HUD instructed jurisdictions to use the "first-time homebuyer" field when entering data in IDIS to distinguish between ADDI and non-ADDI HOME projects (entering "yes" to credit ADDI and "no" to credit other HOME funds). However, in the same guidance, HUD wrote that jurisdictions should enter "yes" in the first-time homebuyer field even when they use other HOME funds to assist a first-time homebuyer because HUD uses this field to capture accomplishment data on all first-time homebuyers whether or not jurisdictions assisted them with ADDI funds.

[18]HUD credits each project to one year of ADDI allocation only. If a project provides an amount of down-payment assistance that exceeds the ADDI per-household limit, HUD credits the assistance to a jurisdiction's fiscal year 2003 ADDI allocation first (which is subject to the HOME maximum per-unit subsidy). If a project has both down-payment and rehabilitation assistance, HUD credits the assistance to a jurisdiction's ADDI allocations for fiscal year 2004 and later.

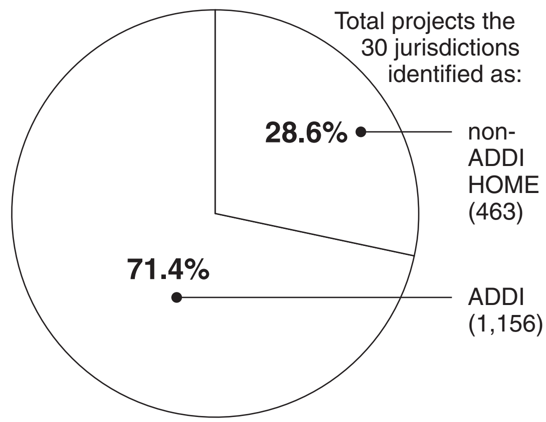
The latitude jurisdictions have to enter "no" in the first-time homebuyer field in IDIS, even when they in fact are assisting this type of homebuyer, reduces HUD's ability to reliably measure first-time homebuyer activity under the HOME program. HUD's new Outcome Performance Measurement System—which will be integrated into IDIS and fully implemented in fiscal year 2007—will include a "direct financial assistance to homebuyers" indicator that, among other things, is intended to measure the number of first-time homebuyers assisted with HOME funds. Because the system will use the first-time homebuyer field in IDIS, this indicator may inaccurately reflect the number of first-time homebuyers. More specifically, if jurisdictions enter "no" for first-time homebuyer projects in order to credit their other HOME funds instead of their ADDI funds, the indicator will be artificially low. HUD officials said that they could not foresee many circumstances where this would occur and that any negative impact on data accuracy will probably be minimal; consequently, the agency does not plan to revise its guidance to jurisdictions. However, HUD does not have a means of determining how often jurisdictions might enter "no" to spend HOME funds that would otherwise expire or to avoid crediting projects to ADDI that were administered by subgrantees that did not receive ADDI funds.

Extent of Inaccurate Data Is Unknown

Although the full extent to which HUD is designating non-ADDI HOME projects as ADDI projects is unknown, the jurisdictions we contacted identified many examples where this was occurring. We contacted 33 (about 7.5 percent) of the 445 jurisdictions that received an ADDI allocation since the program began to check the reliability of project expenditures in HUD's ADDI Accomplishment Report as of December 31, 2005. We excluded three jurisdictions from our analysis because they had unreliable local records or documented IDIS data entry errors. Of the remaining 30 jurisdictions, 13 told us that some percentage of their projects were, according to their records, non-ADDI HOME projects (see fig. 4). The other 17 jurisdictions did not identify any non-ADDI HOME projects in HUD's report. In total, the 30 jurisdictions indicated that 29 percent of the reported projects were non-ADDI HOME projects.

Figure 4: Number of Selected Jurisdictions Reporting Misidentified ADDI Projects and Total Percentage of Misidentified Projects, as of December 31, 2005

Percentage of non-ADDI HOME projects HUD reported as ADDI	Number of jurisdictions	Number of non-ADDI HOME projects identified by jurisdictions
0%	17	0
1-30%	5	38
31-60%	4	136
61-100%	4	289
	Total: 30	**463**



Sources: GAO and selected jurisdictions.

Note: We excluded three selected jurisdictions from the population of the 33 we contacted because of unreliable local records or documented IDIS data entry errors.

The City of Baltimore and the State of Pennsylvania provide examples where HUD designated non-ADDI projects as ADDI. Specifically:

- HUD included, as ADDI expenditures and accomplishments, five Baltimore projects totaling $25,000 that actually were “settlement expense grants” funded through a portion of the city’s HOME allocation. The city does not fund these grants with its ADDI allocation and has internal tracking mechanisms independent from IDIS to differentiate its ADDI and settlement expense grant expenditures. HUD credited these projects to ADDI because these projects met the agency’s IDIS rules for crediting ADDI (that is, the city recorded down-payment assistance to a first-time homebuyer for the purchase of a home and changed the project status to “complete”).

- In Pennsylvania, 4 out of a potential pool of 75 subgrantees had applied for and received a portion of the state’s ADDI allocation as of January 2006. Although the state’s records for these subgrantees showed only two ADDI projects with $20,000 in total ADDI expenditures, HUD’s ADDI Accomplishment Report showed 196 additional ADDI projects, totaling $1.6 million. These additional projects reflect the non-ADDI HOME activity of subgrantees that did not receive ADDI funds.

Moreover, officials from 12 of the 33 jurisdictions we contacted told us that HUD's ADDI Accomplishment Report, as of December 31, 2005, did not include some of these jurisdictions' ADDI projects.[19] One potential reason for this is that the jurisdictions may not have changed the status of their ADDI projects to "complete" in IDIS as of that date. However, of the 307 projects the jurisdictions identified as ADDI, over half (168 projects) did not appear either in HUD's Open Activities Report (which contains information on all HOME projects that jurisdictions entered but did not indicate as "complete" in IDIS) or the ADDI Accomplishment Report as of February 28, 2006. HUD most likely credited these 168 projects to the jurisdictions' other HOME funds. Of the remaining projects, 103 were included in the ADDI Accomplishment Report, and 36 were in the Open Activities Report.[20]

Many Selected Participating Jurisdictions Cited Challenges in Spending ADDI Funds and Viewed the Program's Impact as Limited

Although most of the jurisdictions we contacted (representing about 9 percent of all jurisdictions that received an ADDI allocation since the program began) have used some portion of their ADDI grants, jurisdiction officials cited several factors that affected their ability to spend their funds and indicated that the program's impact has been limited. Officials from many of these selected jurisdictions told us that high housing prices coupled with the low-incomes of ADDI-eligible families have made it difficult to use ADDI funds to assist the families. In addition, officials in the jurisdictions we contacted generally indicated that ADDI thus far has not had a significant impact on homeownership rates in their jurisdictions because the program is new and has received modest levels of funding. Finally, several of the jurisdictions reported difficulties in assisting certain populations—for example, recipients of rental housing assistance because they lack income to become homeowners, even with assistance.

[19]Eighteen of the selected participating jurisdictions reported no missing ADDI projects. We excluded three jurisdictions from the 33 we contacted because of unreliable local records or documented IDIS data entry errors.

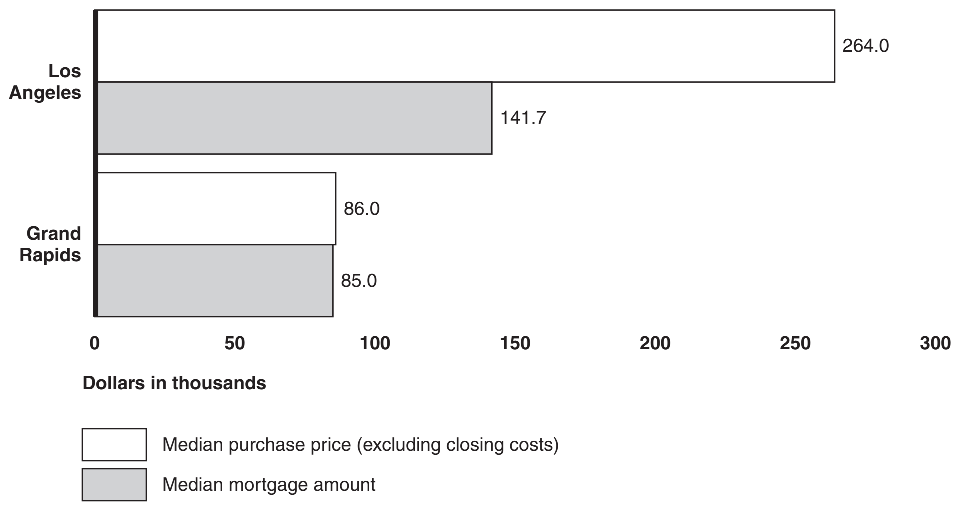
[20]HOME rules require jurisdictions to enter project completion data into IDIS within 120 days of making a final draw of funds for a project. 24 C.F.R. 92.502(d)(1). If jurisdictions do not change the status of a project in IDIS to "complete" despite the fact that they have drawn all the funds for these projects, these projects will not appear on the ADDI Accomplishment Report but should appear in the Open Activities Report.

High Housing Prices Coupled with Low Incomes Have Made It Difficult to Assist Eligible Households with ADDI Funds in Many Selected Jurisdictions

Although most of the 40 participating jurisdictions we contacted have been able to use some portion of their ADDI funding to assist eligible families in their areas, officials from many of these jurisdictions said that a combination of high housing prices, low family incomes, and the per-household limit on ADDI assistance have made it challenging. For example, according to officials from the City of Los Angeles, as of March 2006, the city had spent only about 22 percent of its total ADDI allocation for fiscal years 2003 through 2005 due to these factors. Officials from a number of higher-cost jurisdictions we contacted—including the cities of Los Angeles and Sacramento, California; Boston, Massachusetts; New York, New York; and Washington, D.C.—told us that eligible families in their jurisdictions have had difficulties finding homes they could afford. For instance, an official from the City of Sacramento, California, said that the city receives monthly reports of the multiple listing service—the local organizations through which real estate brokers share information about properties for sale—to identify homes that ADDI-eligible homebuyers could purchase. The official said that in February 2006 there were only 45 single-family homes listed that the jurisdiction considered affordable to ADDI-eligible homebuyers, an insignificant number relative to the number of low-income homebuyers in Sacramento, according to that official. Similarly, an official from the City of Boston noted that the number of homes for sale within HUD's purchase price limits was small relative to the number of ADDI-eligible households residing in the city.

In addition, officials from some of the higher-cost participating jurisdictions with whom we spoke said that because of the large disparity between incomes and housing prices, many eligible families cannot afford to purchase even these less expensive homes without large amounts of assistance to reduce their mortgage loans to affordable levels. For example, the median purchase price (excluding closing costs) of homes purchased by ADDI-assisted households in Los Angeles was $264,000. However, the median mortgage for these households was about $142,000, leaving a gap of about $122,000 that needed to be filled by a combination of homebuyers' savings and homeownership assistance. In contrast, officials in most of the lower-cost jurisdictions we spoke with said that the corresponding gaps in their areas were smaller than in other areas of the country. For example, in Grand Rapids, Michigan, the gap for ADDI-assisted families was about $1,000 (see fig. 5).[21] Appendix V provides more information about the use of ADDI funds in, and challenges faced by, four of the jurisdictions that we contacted.

Figure 5: Difference between the Median Purchase Price and Median Mortgage for Homes Purchased with ADDI Assistance in Los Angeles, CA, and Grand Rapids, MI



Source: GAO.

Although officials from most of the jurisdictions with whom we spoke said that they combined at least one other subsidy with ADDI funds, regardless of the market conditions in their areas, jurisdictions in more expensive areas—where the differences between home prices and mortgages were substantial—generally used more complicated mechanisms to maximize the amount of assistance given to eligible homebuyers. Officials from higher-cost jurisdictions we spoke with also said that ADDI was not the primary source of down-payment assistance for their homebuyer programs and, because of the program's per-household assistance limit, was treated more as a supplement to larger funding sources, such as other HOME funds. For example, officials of the City of Los Angeles said they typically

[21]We did not obtain information on closing costs from the jurisdictions we contacted. Because we did not include these costs in the purchase price of the homes, our analysis may understate the actual gaps between median home prices and mortgage amounts but illustrates the relative difference between higher-cost and lower-cost locations.

combine more than seven different subsidies—including ADDI, other HOME, and state down-payment assistance such as CalHome and California Housing Finance Agency loans—with other HOME funds constituting the largest of the subsidies.[22] Some of these programs are complex and can be time-consuming to implement because officials need to assess a family's eligibility for each subsidy.

Officials from several other jurisdictions we spoke with in which the gap was not substantial said they did not need to combine subsidies to make homeownership a reality for the families they assisted. For example, officials from the cities of Grand Rapids, Michigan; Indianapolis, Indiana; and the State of Texas said that the down-payment assistance offered through ADDI generally was sufficient to bridge the gap between home prices and the mortgages for which lower-income families qualified.

ADDI Has Not Had a Significant Impact on the Homeownership Rates of Selected Participating Jurisdictions Due to Modest Funding Levels and the Newness of the Program

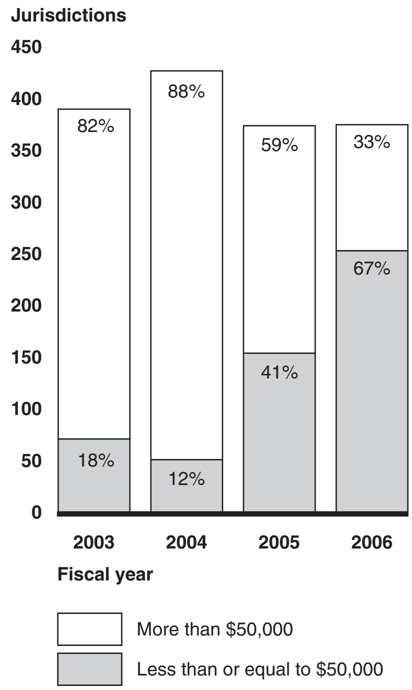
According to officials in most of the 40 jurisdictions we contacted, ADDI's impact has been limited because the program is new and modestly funded. Consistent with this view, HUD data indicates that approximately 40 percent of the jurisdictions that were allocated ADDI funds for fiscal year 2005 received $50,000 or less.[23] The percentage increased to 67 percent in fiscal year 2006 (see fig. 6).[24]

[22]In November 2002, California voters passed Proposition 46, The Housing and Emergency Shelter Trust Fund Act of 2002, which created a $2.1 billion dollar bond that funds different down-payment assistance programs. Both the CalHOME program and the California Housing Finance Agency's down-payment assistance loans are funded, to some extent, through Proposition 46 bonds.

[23]Jurisdictions that receive an ADDI allocation have the ability to decline the funds, which then revert to the state in which the participating jurisdiction is located. However, HUD's data do not reflect allocations that were declined.

[24]As previously noted, the annual amount Congress has appropriated for ADDI has declined since the inception of the program. For example, the ADDI appropriation for fiscal year 2006 is about half of the amount appropriated for fiscal year 2005.

Figure 6: Jurisdictions with ADDI Allocations of $50,000 or Less, Fiscal Years 2003-2006



Sources: GAO and HUD.

Statements by and information from officials in the jurisdictions that we contacted indicated that, because of modest funding levels for ADDI and the newness of the program, ADDI thus far has had no significant impact on homeownership rates in those areas. This was particularly true for jurisdictions we contacted in higher cost areas where the disparity between the incomes of eligible households and housing prices was large, and the households thus needed large subsidies. For example, the City of Modesto, California, received approximately $36,000 in ADDI funds in fiscal year 2005 and about $18,000 in fiscal year 2006. A city official said that the typical gap between the purchase price of a home and an eligible family's mortgage was about $70,000 and that Modesto's total ADDI allocation was not sufficient to assist many, if any, eligible families in the area. Relatively small allocations also affected lower-cost jurisdictions we contacted. For example, the City of Amarillo, Texas, received approximately $35,000 in ADDI funding in fiscal year 2005 and approximately $17,000 in fiscal year 2006. With an average grant amount of approximately $9,000 per ADDI-assisted household, Amarillo likely will serve four households with its fiscal year 2005 ADDI allocation and fewer with its fiscal year 2006 allocation. In addition, several of the officials in the jurisdictions we contacted noted that the program is still relatively new and that they could not begin spending their funding allocations until April 2004, after HUD issued interim regulations for ADDI. Some officials also stated that, because they needed time to develop local policies and procedures to implement the regulations, their ADDI programs were not in full operation until some months after this date. For these reasons, it may be some time before a sufficient number of households are assisted so to have an appreciable impact on homeownership rates, particularly at current funding levels.

HUD officials concurred that ADDI's impact on homeownership rates has been limited but also noted that, as a result of ADDI, jurisdictions that did not previously use any of their HOME funds for down-payment assistance are now doing so. The officials said that, in contrast, some jurisdictions that did use a portion their HOME funds for down-payment assistance prior to ADDI may now be using their ADDI allocations as a substitute for (instead of a supplement to) these funds, thus limiting the marginal impact of the program. Officials in a small number of the jurisdictions we contacted said that, to varying degrees, they were using their ADDI funds in this manner.

Some Selected Jurisdictions Experienced Problems Assisting Recipients of Rental Housing Assistance and Other Populations

Officials from a number of the 40 jurisdictions we contacted said that they have experienced difficulties in using ADDI to assist certain populations, including those that ADDI targeted for outreach—specifically, recipients of rental housing assistance and residents of manufactured housing. For example, most of the jurisdictions we contacted said that it was particularly hard to provide assistance to recipients of rental housing assistance (e.g., Housing Choice Voucher households and residents of public housing) because these households typically have very-low incomes and insufficient savings to purchase a home. For example, as of March 2006, the average income of a public housing resident was about $11,000. Even with ADDI or other subsidies, such households may be unable to purchase homes because their incomes are insufficient to accommodate mortgage payments.

However, some of the participating jurisdictions we contacted have been able to help a limited number of public housing tenants and Housing Choice Voucher recipients become homeowners by combining ADDI assistance with other programs. For example, the City of Sacramento, California, administers HUD programs under which the city rehabilitates and sells existing public housing and other subsidized units to current residents who are able to afford them. Buyers of these units receive ADDI assistance, along with other subsidies, including assistance through the Section 8 Homeownership Voucher program.

Although serving rural areas is not a specific ADDI requirement, officials from some participating jurisdictions we spoke with, particularly those that are states, told us that they have faced difficulties serving rural areas because they lacked existing housing, and the costs associated with building new housing were high. For example, North Dakota officials told us that the supply of housing in rural areas of the state was limited and that market conditions made it economically infeasible to build new homes for low-income families.

However, a few of the state-level jurisdictions we contacted have been able to assist families that live in rural areas. For example, Texas law requires the state participating jurisdiction to serve areas that are not HUD-designated participating jurisdictions (i.e., cities, counties, and consortiums that receive ADDI funds directly from HUD).[25] State officials said that, in practice, the state serves mostly rural areas with its ADDI program. Officials added that they are able to serve rural areas in the state because the cost of housing, including new construction, is relatively low. For example, in the City of Temple, Texas, the cost of a typical new single-family home ranges from $50,000 to $80,000.

Finally, officials from some jurisdictions we spoke with cited several difficulties in assisting residents of manufactured housing. For example, some officials, particularly those from state-level jurisdictions we contacted, said that they found it hard to locate all of the mobile home parks in their areas, which limited their ability to market ADDI to this population. Other officials noted that mobile home park residents are often already homeowners and, therefore, do not meet the program's eligibility requirements. In addition, officials who had tried to conduct outreach to mobile home parks that include residents who are not owners said that

[25] Section 2306.111(c) of the Texas Government Code requires that the state participating jurisdiction allocate 95 percent of its HOME funds (including ADDI) to areas that are not HUD-designated participating jurisdictions, meaning that most of the state's HOME/ADDI funding is awarded to rural communities.

park owners often discouraged efforts to market homeownership programs to their tenants.

Conclusions

Congress established ADDI under the multipurpose HOME program, and authorized funding through fiscal year 2007, to provide a dedicated stream of funding to help low-income households overcome a principal barrier to homeownership—covering the up-front costs of buying a property. Obtaining accurate data on ADDI expenditures and the numbers and characteristics of assisted households would be an essential first step in assessing the program's impact. Although HUD, in anticipation of Congress authorizing a down-payment assistance program, changed its existing information system—IDIS—to collect such information, the agency was unable to anticipate all features of ADDI, and this change to IDIS was insufficient to collect information exclusively on ADDI projects. Due partly to the program's modest size and limited authorization period, HUD decided not to create a discrete control for ADDI and instead went forward with procedures for designating ADDI projects in IDIS that had recognized limitations. As a result, HUD's current procedures for collecting ADDI project information in IDIS allow non-ADDI HOME projects to be included in the expenditures and accomplishments attributed to the program. It is, therefore, difficult to draw any conclusions about what ADDI has accomplished, and Congress lacks reliable information on which to base decisions about the program's reauthorization. However, because creating new data controls for ADDI in IDIS would require an investment of resources, to do so would be prudent only if ADDI is authorized beyond fiscal year 2007.

Even if HUD had more reliable data on ADDI expenditures and projects, it might be too early to assess their impact given the relatively short amount of time that the program has been operating—about 2 years. However, the market conditions and financing constraints described by the 40 jurisdictions we contacted (about 9 percent of the jurisdictions that received ADDI funds), and the likelihood that these conditions and constraints exist in many other areas, suggest that ADDI faces a number of challenges that could limit its impact. First, while most of these jurisdictions were using their ADDI allocations, the allocations were likely too small to assist enough families to significantly increase homeownership rates. Second, in jurisdictions where the gap between home prices and the mortgages affordable to eligible families is greater than the ADDI per-household limits, ADDI will have an impact only to the extent that other sources of homeownership assistance are available to use in conjunction with ADDI funds, and officials are able to effectively use such combinations. Finally, absent concerted efforts by jurisdictions to combine different sources of subsidies, the use of ADDI as a tool to help recipients of rental housing assistance become homeowners may be limited because the very low incomes of this population pose a major obstacle to homeownership. Nevertheless, consistent with long-standing federal efforts to make homeownership more affordable for American families, ADDI ensures that a broad range of participating jurisdictions use a portion of their total HOME allocations to help low-income families become first-time homeowners.

Recommendations for Executive Action

To ensure that ADDI expenditures and accomplishments are accurately reported, we recommend that, if Congress authorizes ADDI beyond fiscal year 2007, the Secretary of HUD take the following two actions:

- develop and implement a discrete control in IDIS that distinguishes ADDI projects from non-ADDI HOME projects, seeking funds to do so if necessary; and
- issue guidance to participating jurisdictions on how to use this control to enter consistent data on ADDI projects into IDIS.

Agency Comments and Our Evaluation

We provided HUD with a draft of this report for review and comment. HUD provided comments in a letter from the General Deputy Assistant Secretary for Community Planning and Development (see app. VI). HUD did not comment on our recommendations but made several comments about other aspects of our draft report.

First, HUD stated that the title of the draft report was “misleading considering the findings and recommendations in the report.” Specifically, HUD agreed with a statement in the draft report’s Conclusions section stating that it might be too early to assess the impact of ADDI given the relatively short time the program has been in operation and believed that the title of the report should have captured the essence of this statement. Although this statement was one of several points in our conclusion, the more fundamental issue we raised—discussed in both the Conclusions section and the body of the draft report—was that HUD lacked accurate data on ADDI expenditures and accomplishments. Because accurate data are essential for program evaluation, as well as program management and oversight, our draft report recommended that, if the program is reauthorized, HUD develop and implement controls and issue guidance that would ensure that data attributed to ADDI are accurate. We continue to believe that the title of our report accurately represented this fundamental issue and the reasoning behind the report's recommendation.

Second, HUD said that the cost of changing IDIS to separately capture ADDI projects "could not be justified at the time of ADDI's rollout in 2004 by any reasonable cost/benefit analysis" and that the agency had explained this in great detail to GAO officials during the course of the review. HUD estimated the cost of such a change to be at least $1 million. However, HUD did not provide us with a cost/benefit analysis or, in fact, any analysis or detailed estimate of costs or benefits either during the course of our review or in its comment letter. HUD commented further that in a May 2006 meeting, GAO officials had agreed that the agency's decision not to invest funds and divert resources to create a discrete ADDI control appeared to be justified from HUD's perspective. Contrary to HUD's assertion, we did not agree in this meeting that HUD's decision was justified. Because HUD provided no evidence of any cost/benefit analysis, we are not able to determine whether any steps HUD took to assess the costs and benefits of revising IDIS were reasonable and thus whether its decision was justified. However, our draft report acknowledged the rationale behind HUD's decision and indicated that, according to HUD, creating a discrete ADDI control would require a significant investment of resources. Finally, HUD stated that (1) the agency's reasons for not creating a discrete ADDI control needed to be discussed in the beginning of the report to provide a clearer understanding of the agency's actions and (2) our draft report did not recognize one of these reasons—specifically, that the agency did not know whether ADDI would receive funding beyond 2007. Our draft report presented HUD's overall view on the feasibility of creating a discrete ADDI control in both the Highlights and Results in Brief sections at the front of the report. In addition, our draft report did cite ADDI's authorization period as one of the agency's reasons. However, in response to HUD's comments, we added language to both the Highlights and the Results in Brief sections of the final report to further explain the agency's rationale.

Third, HUD stated that it disagreed with the draft report's contention that the ADDI expenditures and accomplishments the agency reported are not representative of ADDI projects. In support of this statement, HUD cited an analysis—using data in IDIS—from which the agency concluded that "the population served by ADDI set-aside funds and other HOME funds are, for all intents and purposes, one and the same." Because HUD's analysis is based on data compiled using the same flawed procedures discussed in our report, we do not believe that HUD has presented a sound basis for this conclusion. In addition, our draft report did not state that HUD's data "are not representative of ADDI projects." Rather, it said that due to internal control weaknesses, HUD's data include an unknown number of non-ADDI HOME projects and that the agency, therefore, cannot be certain of the extent to which the data represent ADDI projects. HUD also cited jurisdictions' practice of combining ADDI and other HOME funds as evidence that the populations served by ADDI and other HOME funds are essentially the same. However, this practice merely shows that other HOME funds may be used to assist first-time homebuyers and does not demonstrate that all first-time homebuyers served by other HOME funds share the same characteristics as those served by ADDI. Further, even if both ADDI and non-ADDI HOME funds serve similar populations, HUD is responsible for complying with federal internal control standards that call for controls to appropriately classify projects—in this case projects that are funded from programs with different allocation formulas and requirements.

Fourth, HUD stated that it "rejects the contention that the [ADDI] information collected is not relevant, of value, and useful for controlling operations and making decisions" and that the agency is "using such information operationally to, among other things, aggressively track and, as appropriate, take necessary actions toward improving the performance of sixty-seven participating jurisdictions that have yet to expend any of their ADDI funds." Although our review found many instances where HUD's IDIS data overstated and potentially understated jurisdictions' ADDI expenditures, our draft report did not contend that HUD's data have no value. However, because of the limitations, we believe it is unlikely that these data capture the total population of jurisdictions that have yet to expend any of their ADDI funds.

Finally, HUD disagreed with statements in our draft report that data limitations prevented GAO from assessing ADDI's impact and accomplishments and stated that GAO's methodology was not adequate to respond to the congressionally mandated study of ADDI. As we stated in the draft report, accurate data on ADDI expenditures and accomplishments would be an essential first step in assessing the program, and HUD lacks accurate data. Collecting such data would have required us to contact all 445 jurisdictions that have received ADDI funds since the program's inception, as well as any third parties or subgrantees that administered these jurisdictions' ADDI programs. We determined that such an approach would have been prohibitively expensive and an inefficient use of funds, particularly given that it would not have produced a supporting information system for future data collection. Further, we kept the relevant congressional committees apprised of our scope, methodology, and research objectives throughout the review, including the limitations in HUD's data that affected our work.

We are sending copies of this report to the Secretary of HUD and other interested congressional committees. We also will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staff have any questions concerning this report, please contact me at (202) 512-8678 or woodd@gao.gov. Contact points for our Office of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix VII.

David G. Wood

David G. Wood
Director, Financial Markets
and Community Investment

Scope and Methodology

To obtain information on American Dream Downpayment Initiative (ADDI) expenditures and assisted households through December 31, 2005, we obtained and analyzed data from the Department of Housing and Urban Development's (HUD's) ADDI Accomplishment Report and Open Activities Report. To assess the reliability of the data in HUD's ADDI Accomplishment Report, which is generated from the agency's Integrated Disbursement and Information System (IDIS), we (1) performed limited electronic testing of data elements contained in HUD's ADDI Accomplishment Report to detect obvious errors; (2) reviewed existing information about the data and HUD's rules for crediting ADDI in IDIS; (3) interviewed officials from HUD's Office of Community Planning and Development about ADDI program requirements, the agency's IDIS controls, and guidance to jurisdictions on the procedures for entering ADDI project information into IDIS; and (4) performed some checks of the HUD-reported ADDI expenditure data against records from a selection of 33 jurisdictions—11 states, 13 cities, three counties, and six consortiums. We visited 13 of these participating jurisdictions—4 states, 6 cities, and three consortiums—that we judgmentally selected to cover different geographic regions, housing markets, and jurisdiction types. We interviewed officials from the 20 remaining jurisdictions—7 states, 7 cities, three counties, and three consortiums— which was a stratified, random sample designed to cover the four types of jurisdictions and those with relatively high and low funding allocations and expenditure levels, according to HUD's data as of December 31, 2005.

We also reviewed laws, regulations, and agency guidance relevant to ADDI and the HOME Investment Partnerships (HOME) program, as well as guidance and documentation for HUD's IDIS. We also consulted GAO's *Standards for Internal Control in the Federal Government* and *Internal Control Management and Evaluation Tool*. We used these standards to assess whether HUD's internal controls for ADDI reporting were sufficient to ensure that the agency was accurately reporting ADDI expenditures and accomplishments. We did not assess the reliability of HUD's Open Activities Report or the additional IDIS data that HUD provided us on the characteristics of the households the agency attributed to ADDI from April 2004 through the end of December 2005.

We were not able to determine the reliability of the expenditures or number of assisted households that HUD reported for the ADDI program as of December 31, 2005, because of certain limitations. Specifically:

- IDIS lacks a discrete control to distinguish ADDI projects from non-ADDI HOME projects;
- HUD's guidance gives jurisdictions latitude to enter inaccurate data into IDIS;
- Data reported by HUD may not capture all ADDI projects; and
- We contacted a small percentage (7.5 percent) of the 445 jurisdictions that received an ADDI allocation, since the program began, to check the reliability of HUD's ADDI data.

Nevertheless, in order to provide descriptive information about the ADDI program and highlight the problems we identified with IDIS, we present the ADDI data as reported by HUD. These were the only data available from HUD on the ADDI activities of participating jurisdictions nationwide. Due to these limitations, these figures need to be interpreted and used cautiously.

To describe the views of officials from selected jurisdictions on factors that affected their ability to use ADDI funds and on the program's impact, we obtained information from a total of 40 jurisdictions (the 33 noted previously plus seven others—two states, four cities, and one consortium—that we contacted while we were still developing our methodology) through site visits, phone interviews, or document requests (see list below). [1] Specifically, we visited 13 of these jurisdictions and interviewed officials from the remaining 27. We asked these officials about their administration of ADDI, including outreach activities and the extent to which they used third parties or subgrantees; whether they had a down-payment assistance program prior to ADDI and any federal, state, and local sources of homeownership assistance they use in addition to ADDI; the housing market conditions in their jurisdictions; and the demographics of the populations they assist. We also asked them about their views on ADDI's impact on homeownership rates, the amount of ADDI funds they receive relative to demand for the program, and the ADDI per-household assistance limits. For the 13 jurisdictions we visited, we also obtained data and documentation on the different subsidies they used to promote

[1]Because we were still developing our methodology when we contacted the seven jurisdictions, we did not include them in our reliability check of HUD's ADDI expenditure data.

homeownership and the characteristics of ADDI-assisted households. To supplement the information from the selected jurisdictions, we also analyzed nationwide data from HUD on the ADDI allocations each jurisdiction received for fiscal years 2003 through 2006.

During the course of our work, we contacted the following 40 ADDI jurisdictions:

Cities

Amarillo, Texas
Austin, Texas
Baltimore, Maryland
Boston, Massachusetts
Chicago, Illinois
Grand Rapids, Michigan
Indianapolis, Indiana
Inglewood, California
Los Angeles, California
Minneapolis, Minnesota
Modesto, California
New York City, New York
Philadelphia, Pennsylvania
Pittsburg, Pennsylvania
Sacramento, California
Seattle, Washington
Washington, D.C.

Counties

Hamilton County, Ohio
Montgomery County, Ohio
Will County, Illinois

Consortiums

Alameda County Consortium, California
Barnstable County Consortium, Massachusetts
Butler County Consortium, Ohio
Cuyahoga County Consortium, Ohio
Dakota County Consortium, Minnesota

Hennepin County Consortium, Minnesota
St. Louis County Consortium, Missouri

States

California
Florida
Maryland
Massachusetts
Michigan
Minnesota
New Mexico
North Dakota
Ohio
Oklahoma
Pennsylvania
Texas
Washington

We did not generalize the results of our interviews to the entire population of jurisdictions that received an ADDI allocation because we contacted only a small selection of jurisdictions. Further, the internal control problems associated with HUD's data did not allow us to make any conclusions about the program's accomplishments.

We performed our work from July 2005 through June 2006, in accordance with generally accepted government auditing standards.

Summary of Review of Literature on Barriers to Homeownership

Several academics have identified barriers to homeownership among all types of households, evaluated the relative importance and magnitude of these barriers, and hypothesized on the extent to which relaxation of these barriers (or constraints) could increase homeownership among certain populations, as well as the overall homeownership rate. The literature we reviewed most commonly cited a lack of wealth (i.e., liquid assets for a down payment and closing costs), a lack of income (i.e., liquid assets to make monthly mortgage payments and to pay for home maintenance and repair), and poor credit as barriers to homeownership, with lack of wealth being the most significant, especially among minority households.[1]

Englehardt (1994) noted that housing prices affect potential buyers in many ways but most significantly through the down-payment requirement.[2] He found that the higher the house price, the greater the amount of the down payment required, and the greater the barrier to homeownership. According to Englehardt, intergenerational transfers (i.e., the transfer of wealth from parents to their children) effectively negate this wealth constraint, allowing households to purchase homes sooner than they otherwise would if they had to save for the down payment on their own. In a subsequent study, Mayer and Englehardt (1996) noted that the percentage of the down payment coming from gifts is negatively related to income and wealth and positively related to median house price.[3] Combined with data showing, among other things, that the percentage of the down payment coming from gifts is increasing and that the percentage from savings is decreasing, the study suggests that some buyers are having an increasingly difficult time saving for a down payment.

Stegman, Quercia, McCarthy, and Rohe found an increasing disparity between the growth in income of lower-income families and an increase in

[1]As our report notes, the American Dream Downpayment Assistance Initiative was designed to give low-income households money for a down payment and closing costs, thus helping to address this primary barrier to ownership.

[2]G. Englehardt, "House Prices and the Decision to Save for Downpayments," *Journal of Urban Economics*, vol. 36 (1994): 209-237.

[3]C. Mayer and G. Englehardt, "Gifts, Downpayments, and Housing Affordability," *Journal of Housing Research*, vol. 7, no. 1 (1996): 59-77.

the operating costs of homes over time.[4] Using data from the Federal Housing Administration and the U.S. Census Bureau's Annual Housing Survey, the authors found that the cost of operating a single-family home in the past decade rose at an annual rate of 11.5 percent, while household incomes (for all households) grew at an annual rate of 7.7 percent between 1974 and 1980. Based on this national information, they concluded that, on average, families with low incomes in 1974 could carry a market-rate mortgage of no more than a $43,900 (in 1990 dollars), meaning that they would have needed capital grants of $10,600 to buy a house priced at 75 percent of the median price for a given area. Very-low income households faced an even larger constraint and required deeper subsidies (approximately $39,000).

Finally, Haurin, Hendershott, and Wachter (1997) found that households that are constrained because of low income or wealth have a substantially reduced probability of owning a home.[5] They concluded that the severity of constraints faced by the households will not affect the homeownership rate unless an intervention (such as down-payment assistance) eliminates the constraint. These findings and those of Englehardt; Mayer and Englehardt; and Stegman, Quercia, McCarthy, and Rohe are consistent with our finding that, in jurisdictions with high housing costs, large subsidies are required to finance the gap between homebuyers' mortgage amounts and the high prices of homes.

[4] M. Stegman, R. Quercia, G. McCarthy, and W. Rohe, "Using the Panel Study of Income Dynamics (PSID) to Evaluate the Affordability Characteristics of Alternative Mortgage Instruments and Homeownership Assistance Programs," *Journal of Housing Research*, vol. 2, no. 2 (1991): 161-211.

[5] D. Haurin, P. Hendershott, and S. Wachter, "Borrowing Constraints and the Tenure Choice of Young Households," *Journal of Housing Research*, vol. 8, no. 2 (1997): 137-155.

Several additional studies highlight the impact of the "wealth constraint" on minority households.[6] For example, Gyourko, Linneman, and Wachter note that among wealth-constrained households (i.e., those households with insufficient net worth to meet down payment and closing cost requirements), whites own at systematically higher rates than minorities, suggesting that minorities not only are less likely to own than whites, but that they are also disproportionately wealth constrained. The authors found that, in 1983, wealth-constrained whites owned homes at roughly double the 10.3 percent rate of wealth-constrained minorities.

Finally, several studies suggest that small amounts of down-payment assistance or other similar subsidies could substantially increase the homeownership rate among low-income and minority households in particular.[7] However, the findings in these studies generally are not based on results from controlled field studies and should not be construed as definitive evidence of the impact down-payment assistance programs. For example, Listokin, Wyly, Schmitt, and Voicu (2001) estimated the portion of renters who would qualify for homeownership with mortgages that permit, among other things, low down payments. They estimated that 9.2 percent of all renters could afford a modestly priced home with a standard mortgage without any down-payment assistance, but that the estimated percentage would increase to 16.2 percent with an asset supplement (i.e., down-payment assistance). Comparatively, the authors estimated that the share of black renters who could afford a modestly priced home with a standard mortgage was 2.7 percent. The authors found that the only way to substantially increase that percentage would be through an asset

[6]See J. Gyourko, P. Linneman, and S. Wachter, "Analyzing the Relationships Among Race, Wealth, and Home Ownership in America," *Journal of Housing Economics*, vol. 8 (1999): 63-89 and D. Listokin, E. Wyly, B. Schmitt, and I. Voicu, "The Potential and Limitations of Mortgage Innovation in Fostering Homeownership in the United States," *Housing Policy Debate*, vol. 12, no. 3 (2001): 465-513. Also see the following Department of Housing and Urban Development studies: Z. Di and X. Liu, "The Importance of Wealth and Income in the Transition to Homeownership." *U.S. Department of Housing and Urban Development Office of Policy Development and Research*, (2005) and C. Herbert, D. Haurin, S. Rosenthal, and M. Duda, "Homeownership Gaps Among Low-Income and Minority Borrowers and Neighborhood," *U.S. Department of Housing and Urban Development Office of Policy Development and Research*, (2005).

[7]See Di and Liu (2005); C. Herbert and W. Tsen, "The Potential of Downpayment Assistance for Increasing Homeownership Among Minority and Low-Income Households," *U.S. Department of Housing and Urban Development Office of Policy Development and Research*, (2005); and Listokin, Wyly, Schmitt, and Voicu (2001).

supplement; they estimated that a $10,000 supplement would increase the percentage to 29.8 percent.

Comparison of Selected Rules Applicable to Fiscal Year 2003 ADDI Funds to Those for Fiscal Year 2004-2007 Funds

The rules governing the allocation and use of American Dream Downpayment Initiative (ADDI) funds for fiscal year 2003 differ somewhat from those for fiscal years 2003 through 2007. Table 2 summarizes the similarities and differences for selected rules.

Table 2: Comparison of Selected ADDI Rules for Different Fiscal Years

Rule	Fiscal year 2003 funds	Fiscal year 2004-2007 funds
Funding formula	Need[a] for, and prior commitment to, assistance to homebuyers.	Need[a] by state; then, by local participating jurisdiction. Funds only to local jurisdictions with populations of more than 150,000 or that qualify for an allocation greater than $50,000.
Ineligible participating jurisdictions	None.	The Commonwealth of Puerto Rico and local participating jurisdictions in Puerto Rico.
Eligible homebuyers	Low-income, first-time homebuyers	
Eligible uses of funds	Down-payment assistance.	Down-payment assistance and rehabilitation done in conjunction with a home purchase. Rehabilitation must be completed within 1 year of purchase.
Administrative costs	Cannot be used for administrative costs	
Assistance caps	Subject to HOME Investments Partnerships program (HOME) maximum per-unit subsidy.	The greater of $10,000 or 6 percent of the home's purchase price; also subject to HOME maximum per-unit subsidy when used in combination with HOME funds.
Matching requirement[b]	Applies.	Does not apply.
Uniform Relocation Act requirements[c]	Applies.	Does not apply.

Source: HUD.

Note: Project "soft-costs" are reasonable and necessary costs incurred by the homebuyer or participating jurisdiction associated with the financing of single-family housing (inspection fees, for example).

[a]"Need" is the percentage of low-income households residing in rental housing based on census data.

[b]As participating jurisdictions use HOME funds, they incur a match liability—25 cents for each dollar of HOME funds spent—that must be satisfied by the end of each federal fiscal year.

[c]The purpose of the Uniform Relocation Act is to provide uniform, fair, and equitable treatment of persons whose real property is acquired or who are displaced in connection with federally funded projects. Tenants displaced because their dwelling was purchased using fiscal year 2003 ADDI funds are eligible for relocation assistance and payments.

Statistics That HUD Reported for ADDI through December 31, 2005

The amount of expenditures, assisted households, and assisted minority households reported by the Department of Housing and Urban Development (HUD) varied by state (see table 3). According to HUD's data,

- The amount of American Dream Downpayment Initiative (ADDI) expenditures ranged from a low of $0 (South Dakota) to a high of $10.3 million (California).
- The number of assisted households ranged from a low of 0 (South Dakota) to a high of 985 (Ohio). Texas assisted the most minority households (607).
- Excluding fiscal year 2003 ADDI funds (because they are subject to different per-household assistance limits than funds for subsequent years), the average and median assistance per household were $6,871 and $6,840, respectively. For minority households, the comparable figures were $7,123 and $7,000. The amount of assistance provided ranged from less than $1,000 to $28,748.

However, as discussed in the body of this report, these figures, including data in the following table, represent a mix of ADDI and an unknown number of non-ADDI HOME projects.

Table 3: State-by-State ADDI Expenditures and Accomplishments Reported by HUD through December 31, 2005

State	Down-payment assistance	Rehabilitation assistance	Total ADDI assistance	Total number of households	Number of minority households within total number of households
Ala.	$2,525,806	$0	**$2,525,806**	**258**	101
Alaska	462,288	0	**462,288**	**43**	14
Ariz.	729,421	0	**729,421**	**89**	57
Ark.	181,208	0	**181,208**	**30**	20
Calif.	10,325,690	3,774	**10,325,690**	**685**	469
Colo.	1,345,807	0	**1,345,807**	**243**	78
Conn.	821,996	0	**821,996**	**54**	40
D.C.	713,779	0	**713,779**	**54**	52
Del.	8,050	0	**8,050**	**1**	0
Fla.	5,505,023	0	**5,505,023**	**590**	355
Ga.	3,754,127	4,350	**3,758,477**	**596**	424
Hawaii	520,612	0	**520,612**	**44**	30
Idaho	647,900	0	**647,900**	**197**	24
Ill.	4,327,641	0	**4,327,641**	**447**	288
Ind.	2,913,858	0	**2,913,858**	**669**	149
Iowa	102,099	0	**102,099**	**10**	8
Kans.	1,750,611	19,708	**1,770,319**	**244**	64
Ky.	1,895,810	0	**1,895,810**	**241**	75
La.	1,070,606	0	**1,070,606**	**152**	120
Maine	595,544	0	**595,544**	**81**	6
Mass.	3,069,062	12,731	**3,081,793**	**467**	199
Md.	2,565,254	0	**2,565,254**	**346**	242
Mich.	2,972,693	10,917	**2,979,171**	**334**	170
Minn.	397,308	0	**397,308**	**55**	11
Miss.	534,564	0	**534,564**	**32**	17
Mo.	3,385,899	2,200	**3,388,099**	**572**	206
Mont.	698,906	0	**698,906**	**63**	7
N.C.	4,637,120	0	**4,637,120**	**684**	385
N.Dak.	532,353	8,852	**541,205**	**152**	5
N.H.	819,865	0	**819,865**	**80**	6
N.J.	1,368,659	0	**1,368,659**	**169**	123
N.Mex.	753,146	0	**753,146**	**99**	68
N.Y.	5,151,769	110,351	**5,262,120**	**697**	273
Nebr.	954,591	25,495	**980,086**	**111**	11

(Continued From Previous Page)

State	Down-payment assistance	Rehabilitation assistance	Total ADDI assistance	Total number of households	Number of minority households within total number of households
Nev.	879,620	0	**879,620**	**140**	113
Ohio	5,457,679	26,137	**5,483,816**	**985**	399
Okla.	452,666	0	**452,666**	**228**	167
Oreg.	312,956	0	**312,956**	**48**	7
Pa.	2,733,890	10,524	**2,744,414**	**428**	132
Puerto Rico	716,517	0	**716,517**	**48**	48
R.I.	409,944	0	**409,944**	**43**	24
S.C.	1,806,087	0	**1,806,087**	**521**	228
S.Dak.	0	0	**0**	**0**	0
Tenn.	3,330,401	0	**3,330,401**	**453**	189
Tex.	5,898,550	10,288	**5,908,838**	**776**	607
Utah	239,619	0	**239,619**	**115**	15
Va.	3,530,851	13,704	**3,540,055**	**385**	233
Vt.	155,142	0	**155,142**	**8**	1
W.Va.	215,958	0	**215,958**	**21**	5
Wash.	1,665,382	0	**1,665,382**	**164**	35
Wisc.	1,926,957	97,365	**2,024,322**	**313**	53
Wyo.	$362,915	$0	**$362,915**	**35**	2
Total	**$98,134,199**	**$356,396**	**$98,477,882**	**13,300**	**6,355**

Sources: GAO and HUD.

Note: According to HUD officials and explanatory documents on the agency's Web site, down-payment assistance plus rehabilitation assistance should equal total ADDI assistance on the above report; however, we found that the report contains three cases where rehabilitation assistance was excluded from total ADDI assistance.

Profiles of ADDI Programs in Four Jurisdictions

We contacted 40 participating jurisdictions that were awarded American Dream Downpayment Initiative (ADDI) grants in fiscal years 2003 through 2005. We describe below ADDI programs in 4 of the 40 jurisdictions we contacted—Los Angeles, California; Grand Rapids, Michigan; the State of Texas; and Sacramento, California. We selected these four jurisdictions to illustrate how the program is operating in relatively high-cost and low-cost locations and is being used to assist targeted or hard-to-reach populations.

Los Angeles, California

According to the National Association of Home Builders/Wells Fargo Housing Opportunity Index, Los Angeles was the most expensive city to live in the United States in 2005.[1] The disparity between the annual income of an eligible low-income family—one earning 80 percent or less of the area median income—and the purchase price of homes represents one of the most significant obstacles to homeownership for first-time homebuyers in Los Angeles. For example, the median purchase price of homes purchased by ADDI-assisted households in Los Angeles was $264,000, while the median mortgage amount was about $142,000. As a result of this large gap, the Los Angeles Housing Department (LAHD) administers a complex homebuyer assistance program, in which more than seven subsidies can be combined to assist eligible first-time, low-income homebuyers.

LAHD offers several programs to low-income, first-time homebuyers who need assistance to purchase a home in the city. Using HOME Investment Partnerships (HOME) program funds, LAHD offers purchase assistance of up to $90,000 to eligible homebuyers. LAHD also provides eligible homebuyers with ADDI funds—$10,000 or up to 6 percent of the purchase price of a home, whichever is greater—to help cover the cost of the down payment and closing costs. Both programs offer the assistance as 30-year, deferred zero-interest loans, which are payable upon the sale or transfer of the property. Homebuyers are required to complete at least 8 hours of homebuyer education from one of LAHD's approved providers to obtain these loans and must contribute a minimum of 3 percent of the sales price from their own savings toward the down payment. Homebuyers may contribute as little as 1 percent toward the down payment by attending 12 hours of homebuyer education training. As shown below, the LAHD loans are combined with state and other subsidies to maximize the benefits of the

[1]The index ranks metropolitan areas based on their affordability. Affordability is calculated based on the share of homes sold in an area that would have been affordable to a family earning the median income in that area.

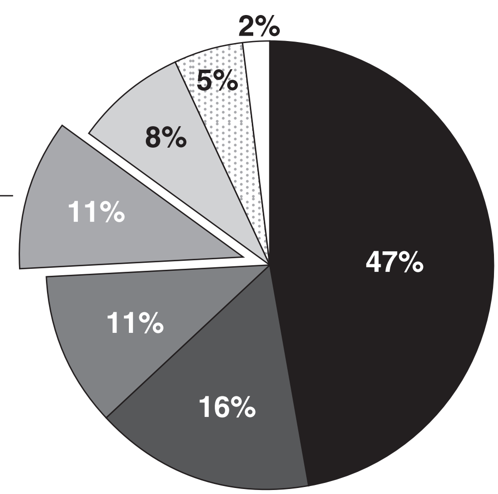
subsidies and make homeownership in the city affordable for eligible families (see fig. 7).

Figure 7: Example of a Homebuyer's Financing Package Incorporating ADDI and LAHD Programs

Homebuyer's financing package

Amount needed to close	Purchase price		$336,300
	Estimated buyer's closing costs		8,212
	Total cost		**$344,512**
Borrower's contribution	Borrower's down payment		$5,056
	Mortgage		151,100
	Total borrower's contribution		**$156,156**
Down-payment assistance	**ADDI loan**		**$20,178**
	LAHD loan (i.e., other HOME down-payment assistance)		90,000
	Additional subsidies	1: State funding 1	30,000
		2: State funding 2	20,178
		3: Private funding	15,000
		4: Nonprofit funding 1	10,000
		5: Nonprofit funding 2	3,000
	Total amount of down-payment assistance		**$188,356**

Down-payment assistance



Source: Los Angeles Housing Department data.

As of January 2006, LAHD had assisted 32 low-income, first-time homebuyers with ADDI funds. Of the 32 homebuyers who received ADDI funds, all used more than one subsidy, 25 were minorities, and 23 earned 60 percent or more of the area median income (see table 4).

Table 4: Selected Characteristics of ADDI Recipients in the City of Los Angeles, as of January 2006

	ADDI assistance	Additional public and private assistance	Homebuyer cash contribution	Purchase price	First mortgage amount
Range	$10,920-$25,200	$25,683-$192,319	$1,850-$22,400	$182,000-$420,000	$80,700-$256,854
Median	$15,840	$122,788	$5,460	$264,000	$141,700
Average	$15,465	$119,850	$6,425	$257,758	$146,992

Sources: GAO and City of Los Angeles.

Grand Rapids, Michigan

According to the National Association of Home Builders/Wells Fargo Housing Opportunity Index, the City of Grand Rapids was among the 15 most affordable metropolitan areas to live in the United States in 2005. According to the city's 2005-2010 Consolidated Housing and Community Development Plan, the city's overall homeownership rate in 2000 was about 60 percent. However, within the areas generally targeted for its homebuyer assistance programs, the homeownership rate was less than 48 percent. The city's consolidated plan also states that most renters with incomes of 51 to 80 percent of the city's area median income have the ability to secure housing through the private market. However, these households still face two impediments to homeownership: (1) down payments and closing costs and (2) the availability of quality housing within their price range.

The Grand Rapids Community Development Department integrated the ADDI program into its existing Homebuyer Assistance Fund (HAF) program, which is funded with other HOME grants. HAF offers a zero-interest, deferred payment loan of up to $5,000 for down-payment and closing cost assistance to first-time, low-income homebuyers. These loans are forgivable after 5 years. Eligible homebuyers are informed of the HAF program through various means, including participating mortgage lenders. To be considered for a HAF loan, eligible homebuyers must be approved for a mortgage loan from 1 of 15 participating lenders, contribute at least 1 percent of the sales price toward the down payment, have assets that do not exceed $5,000, and complete a homebuyer education course. Of 41 families who received assistance through ADDI, as of February 2006, 37 were minorities (see table 5).

Table 5: Selected Characteristics of ADDI Recipients in the City of Grand Rapids, as of February 2006

	ADDI assistance	Income	Homebuyer cash contribution	Purchase price	First mortgage amount
Range	\$3,698-\$5,000	\$16,497-\$47,776	\$500-\$2,824	\$64,900- \$110,500	\$63,491-\$109,388
Median	\$5,000	\$26,487	\$999	\$86,000	\$84,996
Average	\$4,846	\$28,282	\$1,157	\$87,177	\$85,737

Sources: GAO and City of Grand Rapids.

State of Texas

Due to lower incomes (residents of nonmetropolitan areas earn approximately \$13,000 less annually than residents of metropolitan areas) and lack of access to resources (such as bonds, large tax bases, and investment capital) in less populous areas, the State of Texas gives special programmatic consideration to lower-income individuals and households residing in rural areas. For example, Section 2306.111(c) of the Texas Government Code requires that the state participating jurisdiction allocate 95 percent of its HOME (including ADDI) funds to areas that are not other HUD-designated participating jurisdictions. Combined with its annual ADDI allocation, the state dedicated approximately \$6.7 million to its Homebuyer Assistance Program (HAP) for fiscal year 2006.

The Texas Department of Housing and Community Affairs administers HAP through 20 subgrantees that are selected through a competitive process. Families apply for down-payment assistance through these subgrantees. Selected families receive 10-year forgivable loans that cannot exceed the greater of \$10,000 or 6 percent of the purchase price of a home. Of the 42 homebuyers who received ADDI funds through HAP, as of February 2006, 32 were minorities, 24 had mortgages insured by HUD's Federal Housing Administration, 21 purchased homes in rural areas, and 8 earned less than 60 percent of the area median income. The average amount of ADDI assistance per household was approximately \$6,500 (see table 6).

Table 6: Selected Characteristics of ADDI Recipients in the State of Texas Program, as of February 2006

	ADDI assistance	Additional public and private assistance	Homebuyer cash contribution	Purchase price	First mortgage amount
Range	$3,100-$10,000	$0-$5,275	$0-$19,862	$40,900-$163,200	$25,000-$160,678
Median	$5,200	$0	$0	$97,450	$91,397
Average	$6,470	$526	$1,025	$94,942	$90,237

Sources: GAO and State of Texas.

Sacramento, California

The Sacramento Housing and Redevelopment Agency (HRA) administers two HUD programs through which it targets its homeownership programs, including ADDI, to recipients of rental housing assistance (e.g., Housing Choice Voucher households and residents of public housing)—the Section 5(h) and Section 32 homeownership programs.[2]

- Under the Section 5(h) homeownership program, public housing authorities (agencies that administer HUD's federal rental housing assistance programs) can sell units and developments that, because of their location or other factors, are no longer efficient for the housing authority to operate. Residents of these developments are given first priority to purchase the units. Housing authorities may use other HUD assistance, including ADDI funds, to help finance the purchase and sale of these units.

- Similar to the Section 5(h) program, the Section 32 homeownership program permits public housing authorities to make public housing units available for purchase by low-income families, including recipients of federal rental housing assistance. The program also permits housing authorities to give capital funds to public housing residents to purchase homes (down-payment and closing cost assistance, subordinate financing, or below-market financing) or use capital funds to acquire homes that will be sold to low-income families. Housing authorities may use other HUD assistance, including ADDI funds, to help finance the purchase and sale of these units.

Under the Sacramento HRA's homebuyer program, eligible homebuyers can layer up to four subsidies, depending on their annual income, to use toward

[2]Regulations under 24 C.F.R. Part 906 govern both programs.

the purchase of a condominium or single-family home in the City or County of Sacramento (see table 7). Total assistance available to a family can range up to $40,000. According to an official from the Sacramento HRA, about 75 percent of homebuyers obtain one or more subsidies.

Table 7: Subsidies Available to Homebuyers in the City of Sacramento by Income Level or Voucher Program

Income level	Subsidies available
Less than 60 percent of area median income or property located in a targeted area	Eligible families may layer up to four of the following programs: • First-Time Homebuyer program *or* • Target Area Homebuyer program[a] • ADDI[b] • Mortgage Assistance program *or* • CalHome Mortgage Assistance program[c] • Mortgage Certificate Credit program[d]
60 to 80 percent of area median income	Eligible families may layer up to three of the programs listed above.
Homeownership Voucher program participants	Recipients of Section 8 Homeownership Vouchers may combine their assistance with the following three programs: • First-Time Homebuyer program[a] • ADDI[b] • CalHome Mortgage Assistance program[c]

Source: Sacramento HRA.

Note: HUD's Homeownership Voucher program allows recipients of Housing Choice Vouchers to use their monthly subsidies to make payments on a mortgage. Assistance is available for 10 to 15 years, depending on the terms of the first mortgage. Program participants must be first-time homebuyers, have full-time employment, and make a minimum income (based on HUD guidelines).

[a]The First-Time Homebuyer program and Target Area Homebuyer program provide homebuyers with down-payment and closing cost assistance (30-year deferred payment loan). The maximum amount of assistance available under each of the programs is $5,000, and recipients must be first-time homebuyers (recipients do not need to be first-time homebuyers in case of the Target Area program), low-income (or low or moderate in the case of the Target Area program) homebuyers. Both of these programs are partly funded by HUD's Community Development Block Grant and HOME programs.

[b]To receive ADDI funds, a homebuyer must meet the criteria set forth in the American Dream Downpayment Act. Assistance is in the form of a 10-year forgivable loan.

[c]The Mortgage Assistance program and the CalHome Mortgage Assistance program offer 30-year deferred payment loans that are used to reduce the amount of the purchaser's first mortgage. The amount of assistance for which a homebuyer can qualify cannot exceed $20,000 (Mortgage Assistance program) or $25,000 (CalHOME). Recipients must be low-income, first-time homebuyers, and the assistance can be used to purchase a home in eligible areas of the City and County of Sacramento.

[d]The Mortgage Credit Certificate program reduces the amount of federal income tax a recipient pays, making more income available to qualify for a mortgage and make monthly mortgage payments.

Under its Section 5(h) program, Sacramento HRA is in the process of rehabilitating and selling 73 scattered vacant houses and units. As of April 2006, 4 families who were recipients of federal rental housing assistance and 12 who were not had purchased homes under this program. All 16 families received ADDI assistance. In addition, Sacramento HRA is currently in the process of implementing a Section 32 program. Under this program, the city will rehabilitate and sell 200 existing housing units and plans to use ADDI to make these units more affordable to potential buyers.

Comments from the Department of Housing and Urban Development

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-7000

OFFICE OF FOR COMMUNITY PLANNING
AND DEVELOPMENT

JUN - 7 2006

Mr. David G. Wood
Director, Financial Markets
and Community Investment Team
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Wood:

We have reviewed the Government Accountability Office's (GAO) proposed report entitled *Homeownership: Limitations in HUD's Data Hamper Assessment of the American Dream Downpayment Initiative* (GAO-06-677). Our comments are as follows.

It is our belief that the title page "HUD Homeownership Programs – Data Limitations Constrain Assessment of the American Dream Downpayment Initiative" is misleading considering the findings and recommendations in the report. In addition, on page 26 of the report GAO states that it might be too early to assess the impact of American Dream Downpayment Initiative (ADDI) given the relatively short time the program has been in operation. We agree with that statement. In our opinion titling the report "Too Early to Assess the Impact of the American Dream Downpayment Initiative," would more accurately capture the essence.

As for our data needs, we made a conscious, educated decision to build the system we did to control the ADDI funding. The reasons for our decision are not stated until mid-way through the main body of the GAO report. This information needs to be provided to the reader in the beginning of the report, so they will obtain a clearer understanding of the actions taken.

HUD actually began the process of developing a system to control the ADDI funding in 2002 when the design of major improvements to the Integrated Disbursement and Information System (IDIS) used by HUD to report on accomplishments in HOME and three other formula programs were initiated. HUD decided to add two data collection elements (i.e., first-time homebuyer and downpayment/closing costs) in anticipation of the possibility that Congress would eventually pass a downpayment assistance program of some kind. It was at this time in 2002 that Congress first appropriated, and later rescinded, $50 million in funding for a downpayment initiative.

ADDI legislation was finally enacted by Congress and signed by the President in December 2003. The changes to the HOME portion of the IDIS data system initiated in 2002 were eventually released in March 2004, two weeks before publication of the ADDI regulations. The final ADDI legislation contained additional provisions that could not have been anticipated in 2002 and, as a consequence, were not incorporated into the redesigned data collection system.

HUD has explained in great detail to GAO that the cost (estimated by HUD to be $1 million or more) of system changes to capture the ADDI set-aside within HOME, as a separate activity in IDIS, could not be justified at the time of ADDI's rollout in 2004 by any reasonable cost/benefit analysis. Furthermore, any such changes could not have been implemented until sometime in FY 2007 at the earliest, even if a decision had been taken to do so in 2004. In actuality, our decision was well founded. Representatives from GAO agreed in an exit conference on May 9, 2006, that the decision not to invest significant funds and divert resources to set up a discrete reporting system for ADDI appeared to be justified from HUD's perspective. The bases for this decision were that: (1) the populations served by ADDI and HOME were essentially the same; (2) other modifications to IDIS, including the new performance measurement system for HOME, CDBG, HOPWA and ESG, were more urgent; and (3) ADDI was only authorized by Congress through FY 2007. Indeed, GAO states on pages 25 and 26 of its assessment that only if ADDI is authorized beyond FY 2007 would it become prudent to invest the resources necessary to set up separate reporting for ADDI in IDIS.

Considering the factors we had to deal with, we believed then and now that our decision was the most practical approach to take. This is particularly true given the fact that we do not know if there will be funding for the ADDI program beyond 2007. This fact is not mentioned in the summary on page 14 but should be included there and in the executive summary as well.

GAO was presented with the difficult assignment of preparing a state-by-state impact assessment less than two years after American Dream Downpayment Initiative (ADDI) funds were first made available and only 18 months since the majority of grantees received their first allocations. Further complicating GAO's work was the fact that the subject of the assessment was not a separate and distinct federal program. ADDI is a set-aside created by statute within the existing HOME Program to fund activities (downpayment assistance and rehabilitation) that: (1) were already eligible under HOME; (2) were being carried out extensively since 1992; and (3) served the same population as HOME. While ADDI was specifically targeted toward assisting first-time homebuyers, HOME was serving that subset of homebuyers as well. To document the similarities, the following table compares downpayment and rehabilitation assistance provided nationally to first-time homebuyers through the ADDI set-aside and, separately, through other HOME funding since March 2004:

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		ADDI Set-aside*	Other HOME Funds
Number of Completed Units		15,667	16,422
Number of Bedrooms	0	0.1%	0.1%
	1	2.7%	2.2%
	2	23.1%	22.0%
	3	65.0%	67.4%
	4	8.0%	7.2%
	5	0.7%	0.9%
Income of Assisted Households	0-30% of median	6.9%	5.3%
	30-50% of median	25.6%	24.4%
	50-80% of median	67.4%	70.2%
Type of Household Assisted	Single/non-Elderly	30.4%	29.7%
	Elderly	2.3%	2.2%
	Related/Single Parent	32.1%	29.6%
	Related/Two Parent	27.4%	29.9%
	Other	7.6%	8.3%
Race/Ethnicity	White	51.7%	45.5%
	Black	28.1%	27.1%
	Asian	1.8%	1.3%
	Hispanic	15.8%	24.2%
	Other	2.1%	1.3%
Average Assistance Per Unit		$11,412**	$11,239

* - 1.4 percent of the HOME appropriation in FY 2006

** - Includes other HOME funds expended on ADDI-assisted units

An analysis of these data indicates that the population served by ADDI set-aside funds and other HOME funds are, for all intents and purposes, one and the same. In fact, as GAO itself concludes, participating jurisdictions use HOME and ADDI funds interchangeably, often combining ADDI set-aside funds and other HOME funds in the very same project and even assisting the very same household. Information provided from participating jurisdictions through IDIS indicates that ADDI-set-aside funds were used in combination with other HOME funds to assist 3,942 households, 25 percent of the total ADDI designated units completed through April 30, 2006. Consequently, HUD categorically rejects the notion put forth by GAO in its report that the information provided by HUD for ADDI was fundamentally incorrect or created a barrier that would have prevented GAO from having complied with the congressional request to show ADDI's impact on states and to draw conclusions about ADDI accomplishments.

Furthermore, given these data, HUD rejects the contention that ADDI expenditures and accomplishments as reported are not representative of ADDI projects or that the information collected is not relevant, of value, and useful for controlling operations and making decisions.

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At the very moment this GAO report is being published, HUD is using such information operationally to, among other things, aggressively track and, as appropriate, take necessary actions toward improving the performance of sixty-seven participating jurisdictions that have yet to expend any of their ADDI funds.

HUD is disappointed that GAO did not present the report requested by Congress that would have provided a fuller understanding of the impact of ADDI on participating jurisdictions. Instead of being a footnote to the state-by-state impact assessment, as would have been appropriate, the procedures put in place by HUD to address and to overcome the infeasibility of having a separate electronic reporting system for ADDI became the report's primary focus.

GAO acknowledges on page 3 and again on page 32 of its report that, questions of data quality aside, the limited nature of its survey made it impossible to generalize results to other participating jurisdictions not part of the survey. The title of the report itself and the emphasis on the data issues throughout only distract attention from GAO's failure to develop a methodology and prepare a report that could be responsive to Congress' request.

Your positive consideration of our comments is appreciated.

Sincerely,

Nelson R. Bregón
General Deputy Assistant Secretary
For Community Planning and Development

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