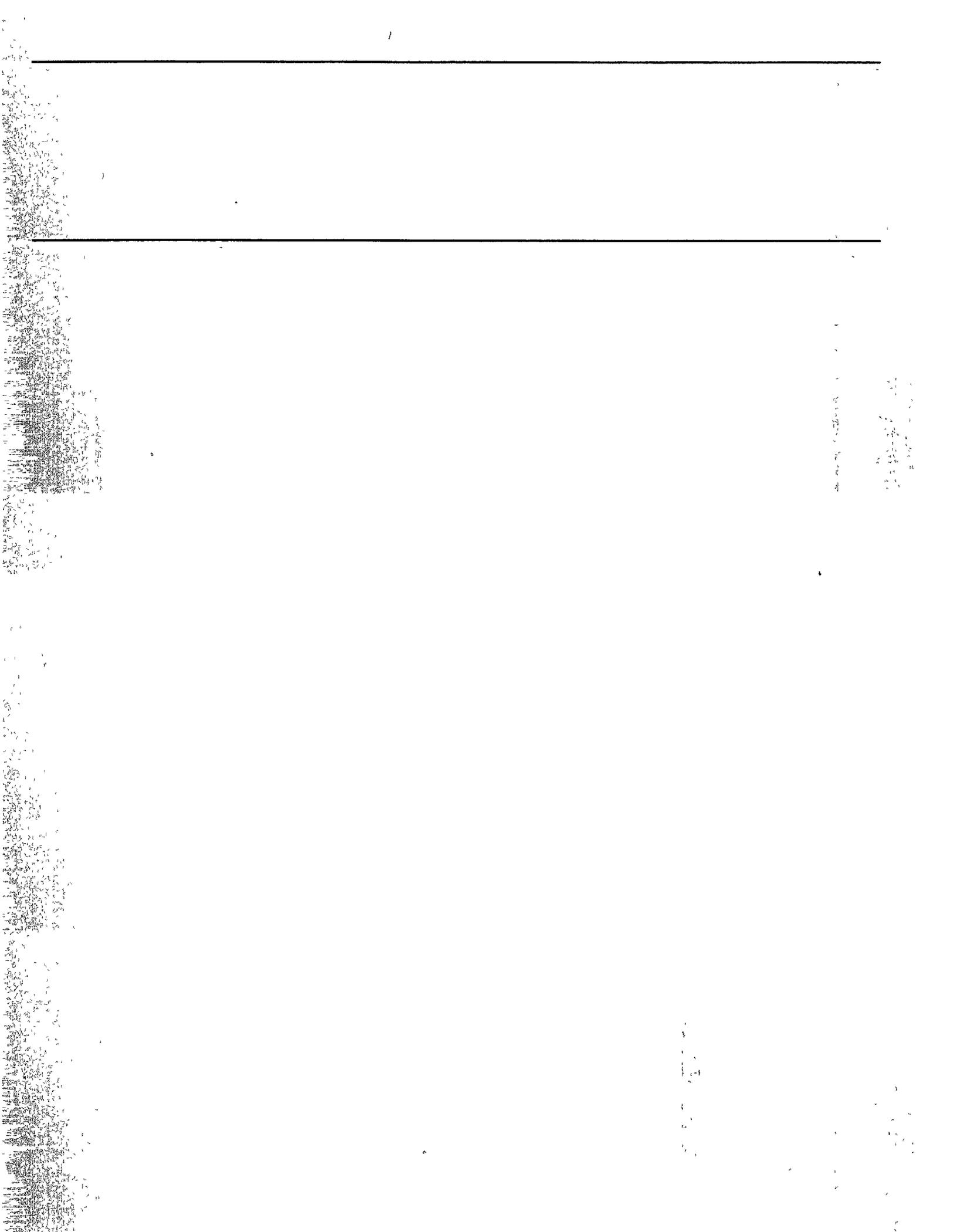

GAO**Resources, Community, and Economic
Development Division**

August 1997**Housing and Community
Development Issue Area
Plan****Fiscal Years 1996-98**



Foreword

As the investigative arm of the Congress and the nation's auditor, the General Accounting Office is charged with following the federal dollar wherever it goes. Reflecting stringent standards of objectivity and independence, GAO's audits, evaluations, and investigations promote a more efficient and cost-effective government; expose fraud, waste, abuse, and mismanagement in federal programs; help the Congress target budget reductions; assess financial information management; and alert the Congress to developing trends that may have significant fiscal or budgetary consequences. In fulfilling its responsibilities, GAO performs original research and uses hundreds of databases or creates its own to compile and analyze information.

To ensure that GAO's resources are directed toward the most important issues facing the Congress, each of GAO's 33 issue areas develops a strategic plan that describes its key issues and their significance; the objectives and focus of its work; and the planned major job starts. Each issue area relies heavily on input from congressional committees, agency officials, and subject-matter experts in developing its strategic plan.

The Housing and Community Development Issue Area is responsible for auditing federal services whose value totals over \$1 trillion. The federal government operates more than 300 programs, scattered among 28 agencies, that are aimed at providing decent, affordable housing and healthy, vibrant communities. Created in 1965 and staffed with about 10,500 employees, the Department of Housing and Urban Development (HUD) is the principal federal agency responsible for about 240 of the programs and activities dealing with housing and community development. Through its programs, HUD makes housing affordable for about 3.9 million low-income tenants; provides \$5 billion annually to over 4,000 communities; insures or guarantees mortgage financing for millions of homeowners through its \$400 billion Federal Housing Administration (FHA) programs; and guarantees through the Governmental National Mortgage Association (GNMA), about \$464 billion in mortgage-backed securities.

In addition, services are provided through the Small Business Administration's (SBA) \$33 billion business loan portfolio to many of the nation's 21 million small businesses; the Federal Emergency Management Agency's (FEMA) annual disaster assistance obligations of about \$2 billion; the Department of Veterans Affairs' (VA) \$174 billion in guarantees on veterans' home loans; and the Department of Agriculture's Rural Housing Service's (RHS) \$32 billion portfolio of direct and guaranteed home loans to

rural residents. Finally, in the secondary markets, Freddie Mac and Fannie Mae (government-sponsored enterprises for which HUD has oversight responsibilities) have significant national housing missions and oversee \$1.3 trillion in securities and loans.

GAO's work in the Housing and Community Development Issue Area assists the Congress and federal agencies by assessing proposals to restructure agencies and programs, analyzing options to reduce costs, and evaluating the impact of those options on the delivery of services. Principal issues include

- restructuring federal oversight of housing and community development agencies to improve service delivery, eliminate duplication, and produce long-term cost savings;
- reducing the federal government's financial risk in its programs to provide mortgage assistance;
- fostering self-sufficiency among low-income people while meeting budgetary constraints;
- promoting the economic and social development of communities; and
- improving the cost-effectiveness of programs that promote small and minority-owned business development.

In the pages that follow, we describe our key planned work on these important issues during our 3-year planning period (fiscal years 1996 through 1998). This year's update to the plan contains some slight changes in emphasis to reflect current congressional interest and available resources. Also, because unanticipated events may significantly affect even the best of plans, our planning process allows for updating this plan to respond quickly to emerging issues. If you have any questions or suggestions about this plan, please call Stan J Cerwinski, Associate Director, or me at (202) 512-7631.



Judy A. England-Joseph
Director
Housing and Community Development Issues

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Table I: Key Issues

| Issue | Significance |
|--|--|
| <p>Housing and community development agency management: How can federal housing and community development agencies be restructured to better achieve intended goals, improve service delivery, eliminate duplication, and produce long-term cost savings?</p> | <p>The current focus on agency restructuring has affected HUD, SBA, and other agencies involved in housing and community development assistance. These agencies are proposing to restructure their organizations and are developing strategies for measuring their performance and options to improve the delivery of federal services with significant cost savings. GAO has designated HUD as a high-risk area because of long-standing deficiencies in management, accounting, and information systems.</p> |
| <p>Mortgage financing: How can the federal government minimize financial risks in mortgage assistance programs while meeting affordable housing needs?</p> | <p>FHA, VA, and RHS underwrite mortgage credit to purchase residential and rental properties that are riskier than purchases made in the conventional market. These programs support nearly \$500 billion in outstanding mortgage loans. In addition, HUD's GNMA guarantees timely payment to investors on \$464 billion of securities backed by these mortgages. These four agencies need to continue to limit their losses, improve delivery of home mortgage and rental housing assistance, and improve oversight.</p> |
| <p>Low-income housing: How can federal low-income housing programs meet budgetary constraints while effectively serving low-income people and promoting self-sufficiency?</p> | <p>Although real outlays for federal low-income housing assistance have tripled since 1977, only one-third of eligible households receive such assistance. Due to budget constraints, funds for low-income housing assistance are not likely to increase substantially. Therefore, policymakers must find more cost-effective methods to house low-income people, including better ways for federal housing programs to encourage self-sufficiency among residents and to apply best management practices among housing providers.</p> |
| <p>Community development: What roles do HUD and other federal agencies play in promoting the economic and social viability of communities and their residents and what types of performance measures do these agencies use?</p> | <p>Over a dozen federal agencies provide community development assistance. The Congress continues to debate whether to consolidate some of these programs into performance-based funds or block grants to improve their effectiveness and efficiency. Consolidation must also factor in safeguards against duplicate federal programs, the capability of states and localities to meet community needs, and performance measures that ensure appropriate and effective use of funds.</p> |
| <p>Small and minority-owned business development: Do existing programs meet clearly defined goals, what benefits have been accrued, and what are the most cost-effective ways to deliver services to these businesses?</p> | <p>Although several SBA programs are directed at establishing or preserving small and minority-owned businesses, only about 7 percent of all small business lending is backed by SBA. Federal purchasing requirements annually direct billions of dollars to support small business development.</p> |

Table I: Key Issues

| Objectives | Focus of work |
|--|---|
| <ul style="list-style-type: none"> •Analyze the effects of agencies' restructuring proposals •Assess the alternatives to restructure FHA •Monitor agencies' efforts to clarify missions, set goals, and measure performance toward those goals •Identify and recommend spending reductions to decrease the federal deficit •Monitor HUD's actions to correct long-standing Department-wide management deficiencies | <ul style="list-style-type: none"> •Agencies' and congressional reinvention proposals affecting housing and community development programs, including the impact on customers and the potential savings •Implications of proposed changes to FHA's role and operations •Agencies' actions to implement the Government Performance and Results Act •Potential savings in HUD's budget •HUD's initiatives to correct long-term management deficiencies and improve contracting practices |
| <ul style="list-style-type: none"> •Analyze changes to mortgage financing and related programs to reduce the federal government's exposure to losses •Evaluate ways to improve controls over insured single-family home improvement and rehabilitation loans •Assess FHA's capacity to meet credit gaps in the multifamily housing market •Recommend ways to strengthen HUD programs aimed at approving and monitoring mortgage lenders | <ul style="list-style-type: none"> •Reducing losses and exposure through better management and reserve requirements •Reducing losses and improving controls over FHA home improvement and rehabilitation loans •Reducing credit gaps through changes in FHA programs •Reducing losses through improved lender approval and oversight procedures |
| <ul style="list-style-type: none"> •Identify ways to better manage and maintain urban and rural federally assisted public housing and multifamily properties •Evaluate ways to improve the cost-effectiveness of housing assistance and its delivery mechanisms •Evaluate options to reinvent housing assistance delivery systems and encourage self-sufficiency •Identify potential impacts of welfare reform on public housing authorities and their tenants | <ul style="list-style-type: none"> •Improvements in the federal oversight, regulatory framework, and budgeting practices of assisted and public housing •Cost implications of project- and tenant-based housing assistance •Proposed reforms to improve delivery of housing assistance and promote self-sufficiency •Cost and operational implications of welfare reform for housing authorities |
| <ul style="list-style-type: none"> •Identify options to integrate social, economic, and housing programs to maximize delivery of services •Identify performance indicators used to rate community and economic development programs and recommend other indicators to improve oversight of these programs | <ul style="list-style-type: none"> •Integration of social, economic, and housing programs •Performance indicators used to assess implementation and results of local, state, and/or federal community and economic development programs |
| <ul style="list-style-type: none"> •Identify the most cost-effective ways to assist small and minority-owned businesses and recommend cost-savings measures | <ul style="list-style-type: none"> •Cost-effectiveness of current ways to deliver program services |

Table II: Planned Major Work

| Issue | Planned major job starts |
|---|---|
| Housing and community development agency management | <ul style="list-style-type: none"> •Review HUD's management reforms and their effectiveness in addressing long-standing deficiencies •Assess FHA's mission and how well its operations provide affordable housing •Assess HUD, SBA, and FEMA's progress in implementing the Government Performance and Results Act •Analyze HUD's fiscal year 1999 budget request. •Evaluate HUD's contracting policies and practices and contract administration * |
| Mortgage financing | <ul style="list-style-type: none"> •Evaluate the efficiency of HUD's property management and disposition activities •Assess whether FHA's home rehabilitation loan program is financially self-sufficient •Assess housing price variations and their impact on the current 2-percent reserve that the single-family insurance program requires •Assess FHA's controls over the use made by borrowers of Title I home improvement loan proceeds * •Analyze credit gaps for financing affordable multifamily housing and the extent that FHA programs could be targeted to address these gaps •Assess FHA's procedures for certifying and monitoring mortgage lenders and for sanctioning problem lenders |
| Low-income housing | <ul style="list-style-type: none"> •Assess the adequacy of HUD's 20-year-old performance funding system that provides \$2.8 billion in operating subsidies to public housing * •Evaluate HUD's \$2.5 billion Competitive Grant Program to modernize and rehabilitate public housing •Assess whether HUD and RHS are performing adequate oversight to ensure that replacement reserves are sufficiently funded to meet the long-term capital needs of Section 202 and Section 515 housing. •Assess the implications of various policy alternatives to reducing Section 8 budgetary authority and outlays •Evaluate the cost implications of HUD's Section 8 program and whether the program can be improved * •Assess HUD's efforts to deliver housing assistance to the elderly with low and very low income * •Assess the results of HUD's multifamily housing portfolio reengineering program •Evaluate HUD's efforts to administer and coordinate programs to help assisted housing tenants achieve economic independence and self-sufficiency •Assess the potential impact of welfare reform on public housing authorities and their tenants * |
| Community development | <ul style="list-style-type: none"> •Examine community development-related programs at 28 federal agencies to identify performance measures and potential opportunities for consolidation •Assess whether the effects of the many governmentwide community development programs can be usefully measured •Monitor implementation of and expansion plans for the empowerment zone program |
| Small and minority-owned business development | <ul style="list-style-type: none"> •Identify major factors contributing to the costs (credit subsidies) of SBA's largest loan guaranty programs |

*On-going assignment

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