



Overview of FY2011 Budget

U.S. Department of Housing and Urban Development

February 1, 2010

Where We Were One Year Ago

When President Obama took office, we were facing the greatest economic crisis in a generation and the economy was on the precipice of a second depression.

- We were **hemorrhaging 700,000 jobs a month** — equivalent to the population of Vermont—our financial system was on the brink of collapse and credit was frozen solid
- **Home prices** had fallen every month for 2 years straight
- Foreclosures were at record levels and residential investment had **fallen by more than 40 percent** in just eighteen months
- The growth rate had hit **negative 6.3 percent** – the worst since the 1982 recession
- Consumer confidence fell to a **forty year low** in February.
- And nearly **\$10 trillion in wealth had been lost** in the stock market which was on a steady downward spiral

The crisis we inherited called for a significant budget infusion to rescue the economy and stabilize HUD's core programs after years of slow starvation:

- HUD's fiscal year 2010 budget request, \$43.72 billion (net of receipts generated by FHA and Ginnie Mae), was a 9% increase over the fiscal year 2009 enacted level of \$40.04 billion
- HUD also invested \$13.6 billion through the Recovery Act to green its housing stock and revive stalled LIHTC projects while stabilizing neighborhoods devastated by foreclosures and preventing homelessness.

Key Accomplishments

Congress agreed and funded HUD at \$43.58 billion (net of receipts) - a 9% increase over FY2009.

- ✓ Assisted more than 1,000,000 homeowners in avoiding foreclosure*
- ✓ Improved FHA underwriting and strengthened enforcement by withdrawing approval for more than 280 lenders*
- ✓ Unprecedented partnerships with DOT and EPA to better coordinate federal housing, transportation and infrastructure investments*
- ✓ Signed a landmark fair housing agreement*
- ✓ Restored housing in the Gulf Coast and laid groundwork for long-term recovery*
- ✓ Stewarded \$13.6 billion of ARRA funding with unprecedented speed and transparency*
- ✓ Proposed and created Transformation Initiative to reform the way HUD does business and allow us to achieve real, measurable results*

HUD's FY2011 Budget: Doing more with less

Now that we have pulled back from the edge of financial crisis, we must reduce the deficit and focus on long term reform of the agency. This means doing more with less: across the Federal government there is a 3 year freeze on domestic spending.

Net of \$6.9 billion in projected FHA and Ginnie Mae receipts, this Budget proposes overall funding of \$41.6 billion, 5% below fiscal year 2010.

- **Contributes to fiscal discipline:** FHA and Ginnie Mae receipts total \$6.9 billion, a 106% increase over last year, which will help rebuild FHA reserves and reduce the federal deficit.
- **Supports families and communities:** Continues full funding for core programs that most impact families and communities.
 - ✓ Serves **2.4 million families** living in public housing and project-based Section 8 developments
 - ✓ Supports **35,000 additional vouchers**, providing rental assistance to the poorest Americans
 - ✓ More than doubles the annual rate at which HUD assistance creates new permanent supportive housing for the homeless
 - ✓ Enables FHA and Ginnie Mae to continue crucial, temporary countercyclical role
 - ✓ Assists nearly 5.5 million households, **over 200,000 more** than at the end of fiscal year 2009.

Building on the FY2010 Budget

In FY 2011, we take major steps towards the transformation of HUD by taking a hard look at our core programs and creating innovative, cross-cutting initiatives with our agency partners.

HUD's FY 2010 Budget	HUD's Proposed FY 2011 Budget
<p>Emphasized New Initiatives and Sufficient Funding of Core Programs</p> <ul style="list-style-type: none"> - 9 percent increase in Budget Request vs. FY 2009 - Choice Neighborhoods - Sustainable Communities - Energy Innovation Fund - Transformation Initiative 	<p>Begins Restructuring Core Programs</p> <ul style="list-style-type: none"> - Begins to transform rental assistance - Creates CDBG Catalytic Fund Competition - Reforms HUD's homeless programs through implementation of HEARTH
<p>Launched Interagency Initiatives</p> <ul style="list-style-type: none"> - Partnership on sustainability with DOT, DOE, EPA 	<p>Deepens and Expands Partnerships</p> <ul style="list-style-type: none"> - Partners with Department of Education to coordinate Choice Neighborhoods with Promise Neighborhoods - Links housing with health care and TANF through partnership with HHS
<p>Took Initial Steps to Stabilize FHA</p> <ul style="list-style-type: none"> - Took hard look at FHA risk management practices - Stepped up enforcement activities - Built new models to test FHA strength - Began increasing staffing and creating IT plan 	<p>Fundamental Reform to FHA Policies</p> <ul style="list-style-type: none"> - Increase Mortgage Insurance Premium - Update FICO scores and down payments - Reduce allowable seller concessions - Increase enforcement on FHA lenders - Implement IT upgrade plan

In this time of fiscal restraint, we have also made hard choices about targeting our funding to its most crucial and catalytic uses.

This budget makes difficult decisions -- cutting funding for a number of programs including:

- The public housing capital fund
- HOME Investment Partnerships
- Native American Housing Block Grants (NAHBG)
- the 202 Supportive Housing Program for the Elderly
- the Section 811 Supportive Housing Program for Persons with Disabilities

Types of Programs Experiencing Cuts:

- Programs that received substantial ARRA funding
- New capital grants -- Department is recognizing that HUD's partners must increasingly access other private and public sources of capital

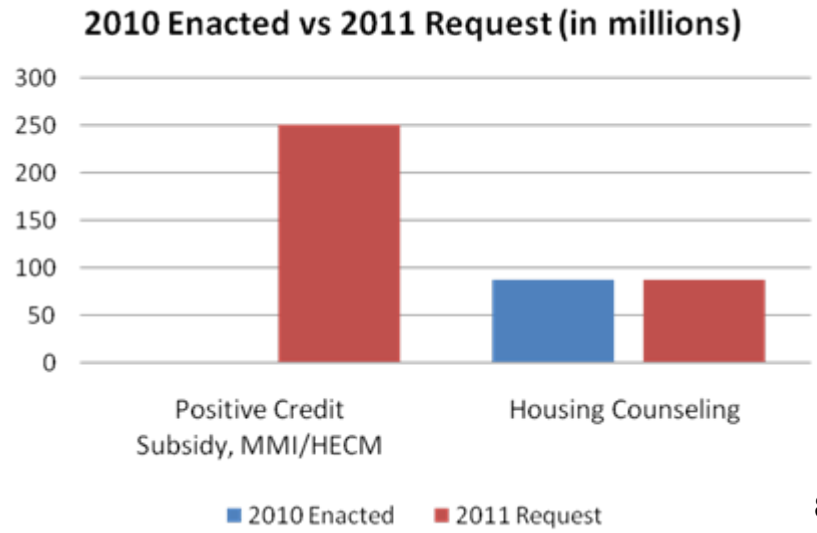
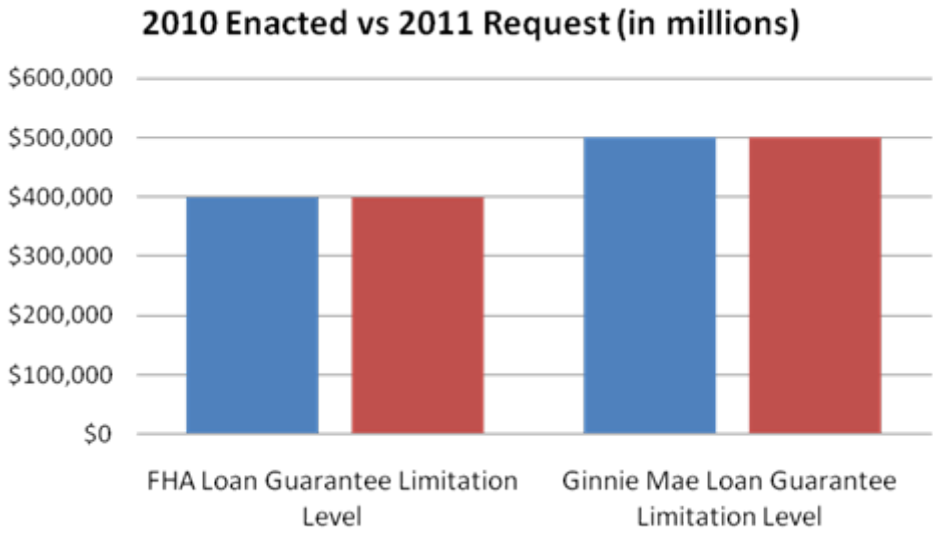
HUD's FY2011 budget seeks to achieve five inter-related objectives, drawn from our draft strategic plan, that will further the transformation of the agency and its programs:

- 1) Strengthen the Nation's housing market to bolster the economy and protect consumers
- 2) Meet the need for quality affordable rental homes
- 3) Utilize housing as a platform for improving quality of life
- 4) Build inclusive and sustainable communities free from discrimination
- 5) Transform the way HUD does business

Objective 1: Strengthen the Nation's housing market to bolster the economy and protect consumers

The Federal Housing Administration ("FHA") plays a critical countercyclical role, representing 30% of the market in the last quarter of 2009, up from 1.9% in 2006, and serving 2.1 million households in 2009.

- Reflects our policy changes announced over the past several months to **strengthen FHA's capital reserves** and better manage the risk to FHA.
 - Increasing the mortgage insurance premium
 - Updating the combination of FICO scores and down payment required of new borrowers
 - Reducing seller concessions, and increasing lender enforcement
 - **As a result, increases receipts by more than \$3.5 billion compared to FY2010.**
- Provides \$88 million for the Housing Counseling Assistance program



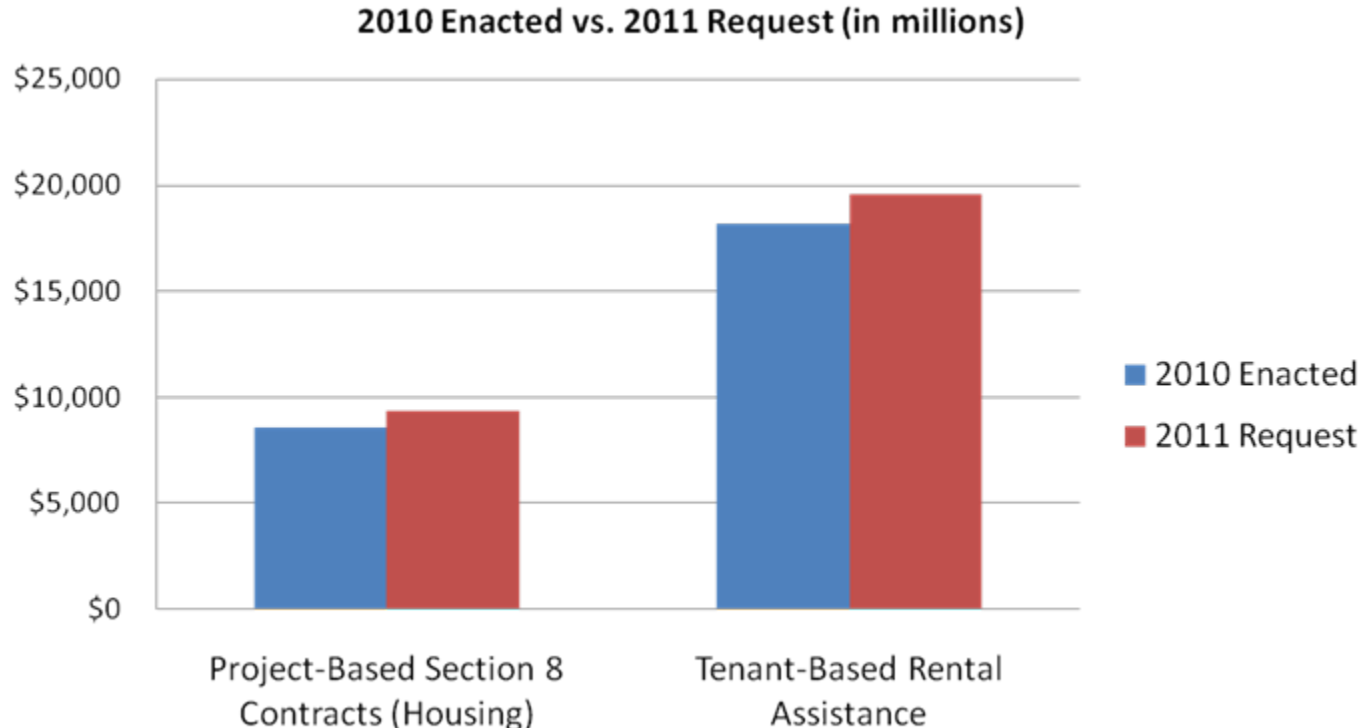
Objective 1: Strengthen the Nation’s housing market to bolster the economy and protect consumers

(Dollars in millions)	2010 Enacted	2011 Request	Difference 2010 vs 2011
Strengthen FHA			
<i>FHA Loan Guarantee Limitation Level</i>	\$400,000	\$400,000	\$0
<i>Positive Credit Subsidy, MMI/HECM</i>		\$250	\$250
Mortgage Backed Securities			
<i>Ginnie Mae Loan Guarantee Limitation Level</i>	\$500,000	\$500,000	\$0
Housing Counseling	\$88	\$88	\$0
Combating Mortgage Fraud	\$20	\$20	\$0

Objective 2: Meet the need for quality affordable rental homes

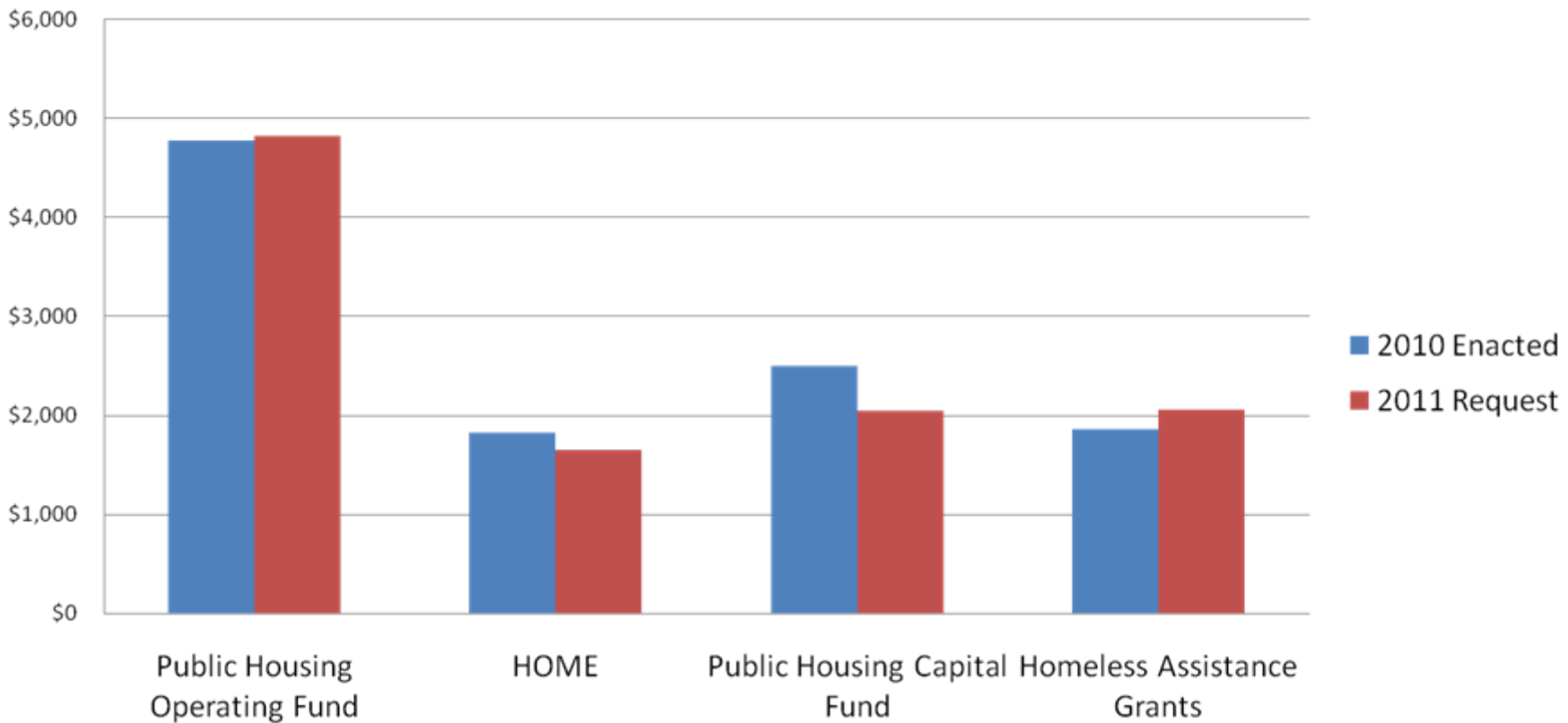
We have learned from the housing crisis that housing policy must be rebalanced. In the coming year and with the FY2011 budget, HUD will:

- Increase investment in the Department’s core rental assistance programs
- Launch long-term Transforming Rental Assistance (“TRA”) initiative to preserve public and assisted housing for future generations
- Implement HEARTH Act, incorporating two decades of research and on-the-ground experience into HUD homeless programs



Objective 2: Meet the need for quality affordable rental homes

2010 Enacted vs. 2011 Requested (in millions)



Objective 2: Meet the need for quality affordable rental homes

Program	2010 Enacted	2011 Request	Difference 2011 vs 2010
Housing Choice Voucher Contract Renewals	\$16,339	\$17,310	\$971
	\$18,184		
	(does not include 811 renewals, which was funded in 811 account in 2010)		
Total, Tenant-Based Rental Assistance		\$19,551	\$1,366
Homeless Assistance Grants	\$1,865	\$2,055	\$190
Project-Based Section 8 Contracts (Housing)	\$8,558	\$9,376	\$818
Public Housing Operating Fund	\$4,775	\$4,829	\$54
HOME	\$1,825	\$1,650	(\$175)
Public Housing Capital Fund	\$2,500	\$2,044	(\$456)

Objective 2: Meet the need for quality affordable rental homes

In FY2011, HUD proposes the Transforming Rental Assistance Initiative at \$350 million to preserve public and assisted housing for future generations.

This critical housing stock:

- Represents billions in federal investment
- Serves extremely vulnerable households at a time of economic hardship
- Has significant capital needs
- ***Despite this sizable federal investment, funding has not kept pace with need. We have suffered significant losses in this stock and many more units are at risk***
- HUD provides deep rental assistance to more than 4.6 million households through at least 13 different income-based (ie., deeply targeted) programs administered by 3 operating divisions.
 - Among these programs, there are many conflicting rules that make them **difficult to use and complex to administer**

We are at-risk of losing this housing stock and the long term investment of taxpayer dollars it represents.

*We propose voluntary conversion of 300,000 units of public and assisted housing to a new funding stream called RAPT (**R**ental **A**ssistance for **P**reservation and **T**ransformation) that incorporates the best from the project based voucher model and the Section 8 contract model*

Objective 2: Meet the need for quality affordable rental homes

The Transforming Rental Assistance Initiatives is guided by these principles:

1. Financial and Physical Sustainability:

- ✓ Place participating properties on a sustainable financial and physical footing
- ✓ Enable owners to leverage private financing to address properties' capital needs

2. Mobility:

- ✓ Provide tenants with greater flexibility to move
- ✓ Encourage regional partnerships to allow access to areas of opportunity
- ✓ Maintain the project based subsidy for the owner
- ✓ Provide mobility assistance to tenants

3. Increased administrative efficiency:

- ✓ Move out of overly burdensome regulatory scheme, while protecting tenants and ensuring long-term viability of stock
- ✓ Begin to consolidate programs into single form of rental assistance

Objective 2: Meet the need for quality affordable rental homes

HUD proposes to allocate this funding through a combination of a competition and a threshold application process.

Type of Owner	Eligible ?	How Apply?
PHAs ... that only have public housing	Y	Noncompetitive with threshold requirement
with public housing and vouchers	Y	Competition – preference for partnerships between PHAs that <i>combine</i> voucher operations
that own assisted properties	Y	Competition
that only have vouchers	In part	Competition for one-time grants to offset costs of forming consortia etc. and to promote mobility
Multifamily/Assisted Owners ... of RAP or Rent Supp Properties of Mod Rehab Properties administered by PHAs	Y Y	To be determined

Objective 2: Meet the need for quality affordable rental homes

To support implementation of the HEARTH Act, the Budget proposes a nearly \$200 million increase in homeless assistance funding.

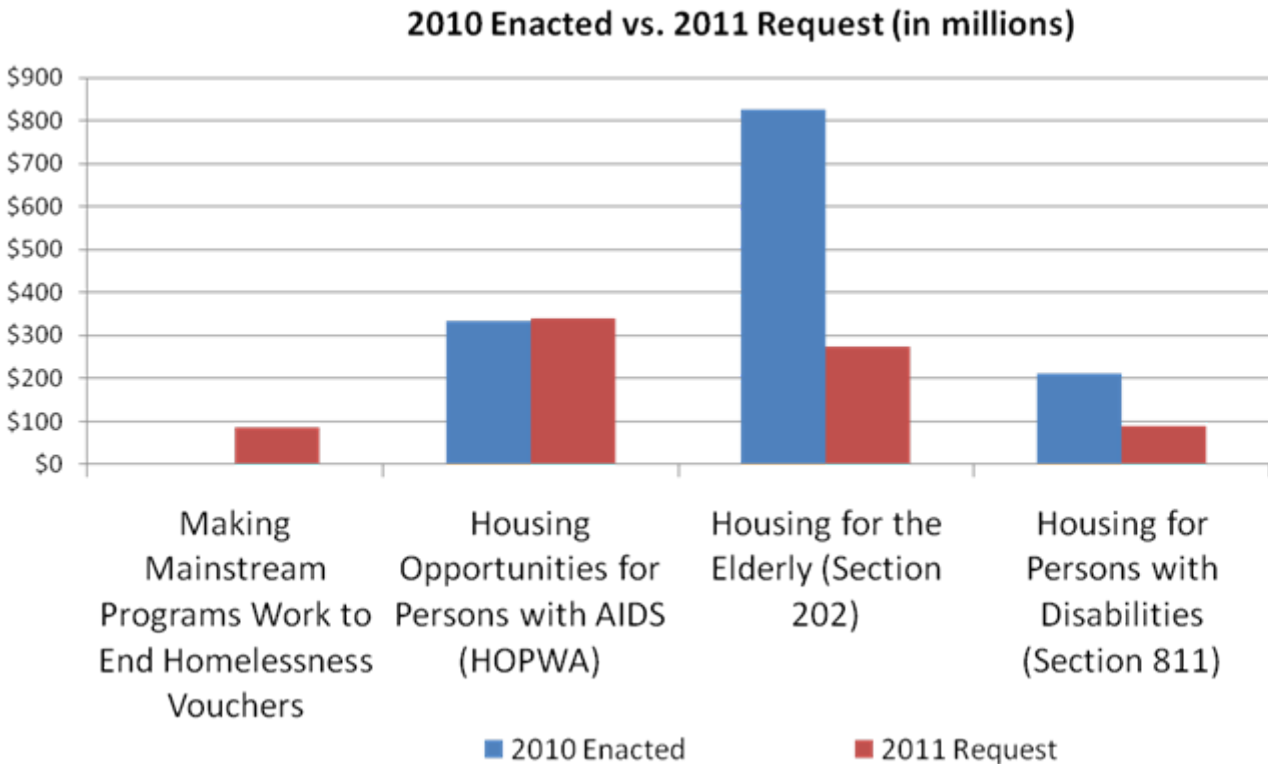
The Obama Administration will maintain progress in reducing chronic homelessness and will meet the growing needs among homeless families during this period of economic hardship. The HEARTH Act:

- **Consolidates** HUD's competitive grant programs
- Increases investment in **evidence-based practices** including homeless prevention and permanent supportive housing
- Supports the shift of local homeless assistance systems to a **performance-based** orientation
- Better meets the unique needs of **rural communities**

Objective 3: Utilize housing as a platform for improving quality of life

Stable housing is the foundation upon which families builds their lives and is an ideal platform to deliver services that improve their lives. It is also better for taxpayers - numerous studies have demonstrated that it is more cost effective than the cycling through emergency systems that results from unstable housing.

- Funding for 10,000 new homeless and special needs vouchers to support **groundbreaking collaborations** with the Department of Health and Human Services (HHS) and the Department of Education



Note: Section 811 renewal funding for mainstream vouchers for 2010 is not reflected in this chart.

Objective 3: Utilize housing as a platform for improving quality of life

In FY2011 HUD will collaborate with the U.S. Department of Health and Human Services to bring mainstream service funding to bear on the needs of homeless families and individuals.

- **Initiative #1: Individuals with special needs who are homeless or at risk of homelessness**
 - HUD and HHS will design and run a *joint competition* to select eligible PHAs
 - HUD will provide *4,000 Housing Choice vouchers*
 - HHS is seeking *funding for SAMHSA* to provide wraparound support

- **Initiative #2: Families who are homeless or at risk of homelessness**
 - HUD will provide a minimum of *6,000 vouchers* on a competitive basis
 - Applicants will show how the vouchers will be *integrated with TANF* and other services
 - *Department of Education* will assist with identifying at-risk families and children

Objective 3: Utilize housing as a platform for improving quality of life

Section 202 and 811 are important programs with distinguished histories. However, they are in need of modernization.

- HUD requests a suspension of funding for new projects in its FY2011 budget in order to redesign them to better target resources and streamline program operations, bringing them into the 21st Century.
- The program reforms could include:
 - ✓ New requirements to establish **market demand**
 - ✓ Target funding to higher **capacity** sponsors
 - ✓ **Streamlined processing** to speed development timeframes
 - ✓ Broader benefits of program dollars achieved by incorporating **innovative service models**
 - ✓ Better align funding levels with **construction costs**

Objective 3: Utilize housing as a platform for improving quality of life

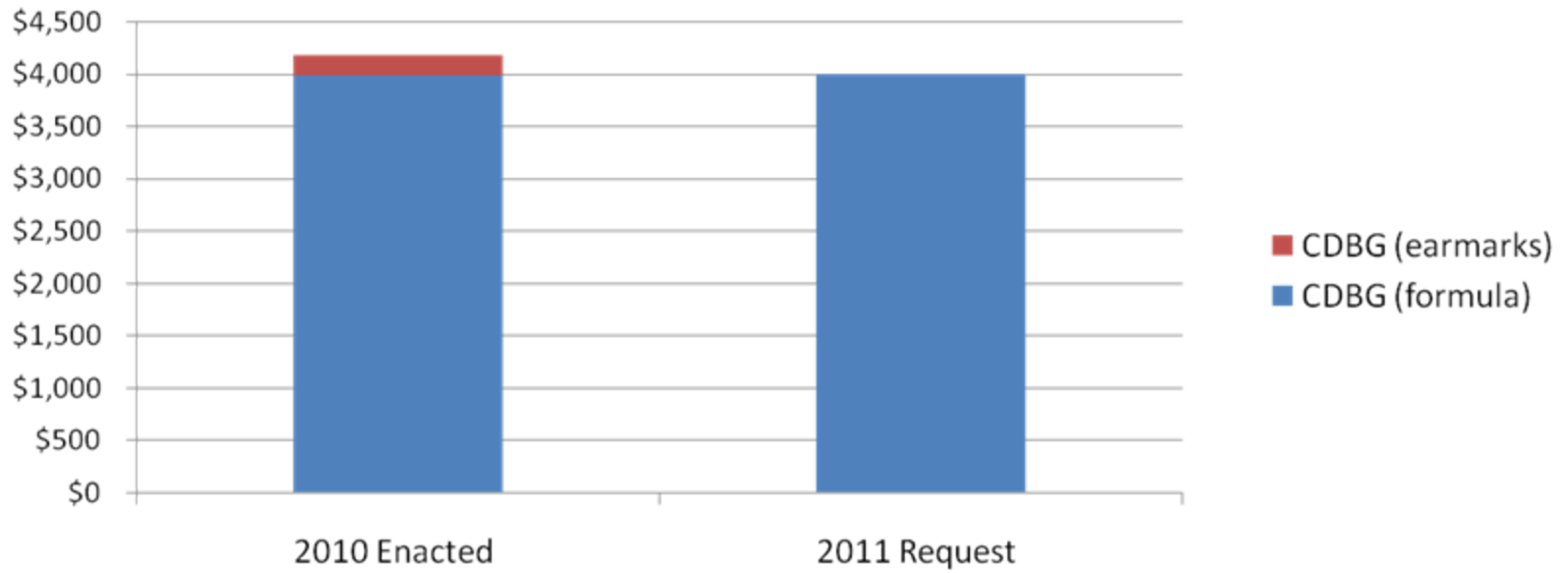
Program	2010 Enacted	2011 Request	Difference 2011 vs 2010
Housing for the Elderly (Section 202)	\$825	\$274	(\$551)
Housing for Persons with Disabilities (Section 811)	\$213	\$90	(\$123)
Making Mainstream Programs Work to End Homelessness Vouchers	\$0	\$85	\$85
Housing Opportunities for Persons with AIDS (HOPWA)	\$335	\$340	\$5

Objective 4: Build inclusive and sustainable communities free from discrimination

Place is already at the center of every decision HUD makes – 58,000 of the 66,000 census tracts have HUD housing. The FY 2011 Budget allows HUD to better nurture sustainable, inclusive neighborhoods and communities.

- **Fully fund CDBG**
- Connect **transportation and housing** through the Sustainable Communities Initiative
- Take **Choice Neighborhoods** to scale
- Creates new **Catalytic Competition Grants**
- Increases funding for **capacity building** for non-profits

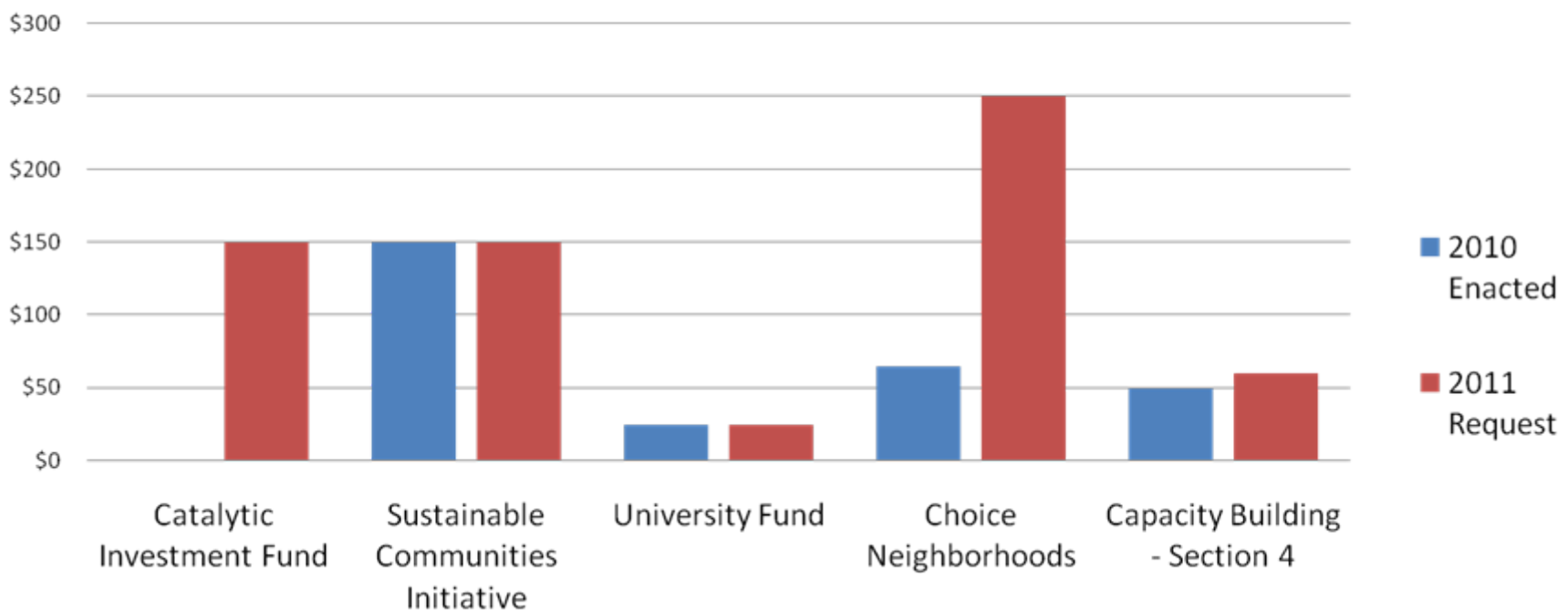
2010 Enacted vs. 2011 Request (in millions)



Objective 4: Build inclusive and sustainable communities free from discrimination

Program	2010 Enacted	2011 Request	Difference 2011 vs 2010
CDBG (total)	\$4,450	\$4,380	(\$70)
CDBG (formula amount)	[\$3,983]	[\$3,983]	[\$0]
Sustainable Communities Initiative	[\$150]	[\$150]	[\$0]
Catalytic Investment Fund	[\$0]	[\$150]	[\$150]
University Fund	[\$25]	[\$25]	[\$0]
Capacity Building – Section 4	\$50	\$60	\$10
Choice Neighborhoods	\$65	\$250	\$185

2010 Enacted vs. 2011 Request (in millions)

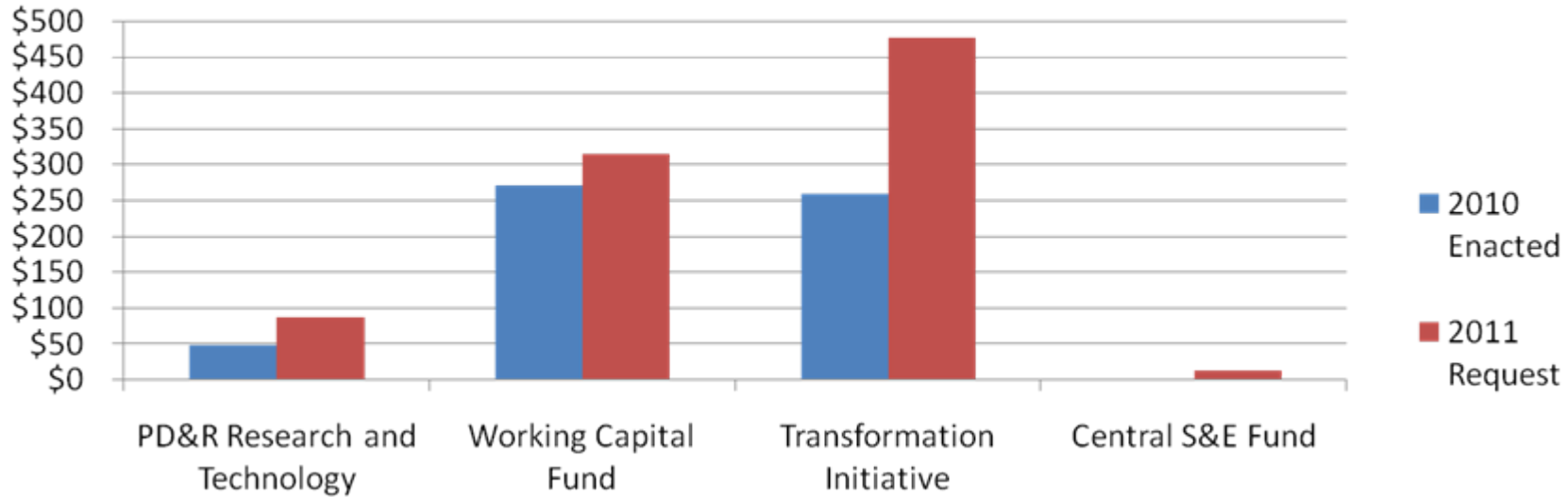


Objective 5: Transform the Way HUD Does Business

In fiscal year 2010, HUD acknowledged a pressing need for change. To achieve the goals we laid out in our budget, the Department had to begin to remake itself.

- Extensive strategic planning process with input from over 1,500 stakeholders - strategic plan to be released in mid-February
- Launched a process for allocating the \$259 million Transformation Initiative Fund
- In 2011, requests up to 1% of program funding for the Transformation Initiative
- Increases resources to PD&R for research and development as well as rigorous evaluations
- Creates central fund for salaries to provide flexibility and reward good management

2009 Enacted vs. 2010 Request (in millions)



Objective 5: Transform the Way HUD Does Business

	2010 Enacted	2011 Request	Difference 2011 vs 2010
PD&R Research and Technology	\$48	\$87	\$39
Working Capital Fund	\$271	\$315	\$44
Transformation Initiative	\$259	\$476	\$217
Central S&E Fund	-	\$13.8	\$13.8



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