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Housing and Community Development Issue Area Plan

Fiscal Years 1996-98



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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 32 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 and whose benefits reach virtually every community in the nation. These services, which are scattered among several agencies, are targeted toward ensuring that all Americans have decent, affordable housing and healthy, vibrant communities upon which our nation's economic growth and social stability depend.

The Department of Housing and Urban Development (HUD) has responsibility for the bulk of these services by insuring or guaranteeing mortgage financing for about 7 million people through its \$497 billion Federal Housing Administration (FHA) loan portfolio; guaranteeing, through the Government National Mortgage Association (GNMA), about \$485 billion in mortgage-backed securities; providing about \$25 billion annually to subsidize rentals and to operate and modernize residences for about 4.7 million lower-income households; providing \$5 billion annually to assist over 4,000 communities through its Community Development Block Grant program; and overseeing the distribution of \$227 billion in unexpended budget authority.

In addition, services are provided through the Small Business Administration's (SBA) \$33 billion business loan portfolio that supports many of the nation's 21 million small businesses; the Federal Emergency

Management Administration'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 program evaluation and performance 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. The principal issues concerning housing and community development are

- 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 Larry Dyckman, 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 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 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 \$485 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 likely to shrink substantially. Therefore, policy makers 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 is currently debating whether to consolidate some of these programs into performance-based funds or block grants to improve their effectiveness and efficiency. Consolidation should include performance measures to assess program effectiveness and safeguards against duplicate federal programs as well as factor in the ability of states and localities to meet community needs that the federal government formerly provided.</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 seven percent of all small business lending is backed by SBA. Federal purchasing requirements annually direct billions of dollars to support small business development. The Congress has raised concerns about the benefits of these programs, and court cases have challenged minority set-asides and mandates.</p>

Table I: Key Issues

Objectives	Focus of work
<ul style="list-style-type: none">•Analyze the effects of agencies' restructuring proposals, including HUD's "reinvention blueprint."•Assess the alternatives to restructure FHA, including making it a government-owned corporation.•Assess the feasibility of transforming HUD's current programs, such as assisted housing, into performance-based funds.•Identify and recommend spending reductions to decrease the federal deficit.•Monitor HUD's actions to correct long-standing departmentwide management deficiencies.	<ul style="list-style-type: none">•Reinvention proposals affecting housing and community development programs, including the impact on customers and the potential savings•Streamlining housing assistance to rural residents•Residual oversight role for the federal government if housing programs are transferred to state and local governments•Potential savings in HUD's budget•HUD's initiatives to correct long-term management deficiencies
<ul style="list-style-type: none">•Analyze proposals to change mortgage financing programs to reduce the federal government's exposure to losses.•Analyze alternative options to provide mortgage financing to urban and rural residents.	<ul style="list-style-type: none">•Financial position of FHA's mortgage assistance programs for single- and multifamily properties•Reducing losses through better management of property disposition activities•Reducing risks through changes in housing programs at FHA and RHS
<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.•Evaluate options to reinvent housing assistance delivery systems and encourage self-sufficiency.	<ul style="list-style-type: none">•Improvements in the federal oversight, regulatory framework, and budgeting practices of assisted public housing•Cost implications of project- and tenant-based housing assistance•Proposed reforms to improve delivery of housing assistance and promote self-sufficiency
<ul style="list-style-type: none">•Identify overlap among community development programs and recommend ways to streamline them.•Identify options to integrate social, economic, and housing programs to maximize delivery of services.•Assess performance indicators used to rate existing programs and recommend other indicators to improve oversight of these programs.•Assess the capability of states and localities to meet community needs for development assistance and services.	<ul style="list-style-type: none">•Economic development in distressed urban areas and overlap among community development programs across federal agencies•Integration of social, economic, and housing programs•Performance indicators that will be used to assess implementation of the empowerment zone program•Impact of allocation formulas used for calculating block grants to states
<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"> •Analyze proposals to dismantle HUD, including options to transfer programs to other federal, state, or local agencies. •Analyze HUD's fiscal year 1997 budget request. •Evaluate issues affecting the consolidation of HUD and RHS housing programs. •Assess FHA's mission and how well its operations provide affordable housing. •Evaluate HUD's contracting policies and practices and contract administration. •Assess HUD's progress in addressing high-risk issues.
Mortgage financing	<ul style="list-style-type: none"> •Evaluate the impact of proposed changes to reduce FHA's insurance coverage on single-family mortgages. •Assess housing price variations and their impact on the current 2-percent reserve that the single-family insurance program requires. •Analyze single-family foreclosure rates to determine patterns and their causes. •Review HUD's program for sharing mortgage insurance risks on multifamily loans with state and local housing finance agencies and other qualified entities.
Low-income housing	<ul style="list-style-type: none"> •Assess the impact of proposals to restructure public and assisted housing on the ability of lower-income families to find housing and achieve self-sufficiency. •Assess HUD's progress in re-engineering its multifamily housing portfolio. •Assess HUD's actions to improve operations at the worst-performing large housing authorities and whether HUD's strategy has been successful in Chicago, New Orleans, and San Francisco. •Analyze the response of the public housing industry to recent major reform legislation and its consequences for increasing the number of working families in public housing. •Evaluate HUD's Competitive Grant Program to modernize and rehabilitate public housing.
Community development	<ul style="list-style-type: none"> •Assess the options for monitoring performance of a combined block grant for community development and housing. •Assess the implications of converting grant and loan programs that promote community development into a guaranteed loan program. •Determine who benefits from block grants for community development. •Assess the implementation of the empowerment zone program.
Small and minority-owned business development	<ul style="list-style-type: none"> •Analyze credit subsidies provided by SBA's programs.

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