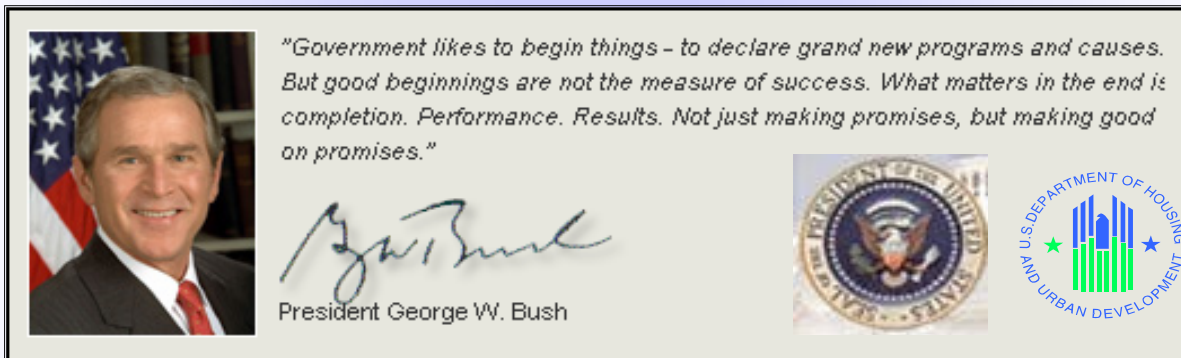


# **“Changing the Face of HUD”**

## **Addressing High-Risks & Management Challenges**

Presentation For

### **The American Association for Budget and Program Analysis - AABPA**



**Jim Martin**  
**Deputy Chief Financial Officer**

**April 17, 2007**

# What We Will Cover Today

---

1. Challenges and risks facing HUD in 1994.
2. Strategies and plans for addressing HUD's challenges and risks.
3. Significant results achieved in core HUD programs.
4. The face of HUD in 2007.



# What was the face of HUD in 1994?

---

- Only cabinet level agency to be placed on the GAO's "high-risk" watch list in its entirety
- High-risks in all core program areas – FHA mortgage insurance, rental housing assistance, and community grants.
- Major management challenges regarding resource management and financial and information systems.
- HUD was the face of the GAO high risk list.



# HUD's General Strategy

---

- Address Management Infrastructure Issues
  - Reorganization & Redistribution of Staff Resources
  - Increased Performance Metrics & Accountability
- Focus on Performance vs Compliance
- Risk-based Targeting of Extensive Third-Party Program Delivery Structure
- Increased Reliance on Automation



# Key Corrective Actions Planned

---

- Realignment of HUD functions and resources.
- Update of policies, procedures; increased training and technical assistance; and better performance incentives for industry partners and third-party program administrators.
- Development of automated remote monitoring systems for problem identification and targeting.
- Training of HUD managers and staff on risk-based monitoring processes and practices.
- Increased enforcement of key HUD compliance and performance objectives.



# Progress Recognized in January 2001

---

- HUD's "high-risk agency" designation was removed because the Department had:
  - Demonstrated a Top Management Commitment,
  - Developed Adequate Corrective Action Plans, and
  - Shown Real Progress in Implementing Actions.
- However, "high-risk program" designations remained for HUD's two largest program areas:
  - Rental Housing Assistance Programs, and
  - FHA Single Family Housing Mortgage Insurance Programs.



# Managing for Success in the New Administration, 2001-2007

---



- Oversight and Support by the Secretary & Deputy Secretary.
- Leadership and Accountability at the Assistant Secretary Level and Coordination with All Affected HUD Components.
- Integration with HUD's Strategic and Annual Performance & Management Plans, with inclusion as a HUD-specific initiative in the President's Management Agenda.
- Communication with all external Stakeholders.
- Clear, measurable, results-oriented goals with annual & quarterly action plans.
- Biweekly status meetings with Leaders/Coordinators
- Monthly meetings with OMB.
- Quarterly scoring of progress & results by OMB.
- Inclusion in Performance Standards/Evaluations for HUD Staff.

# Clearly Define Success

---

- If you are not clear on where you are going, you may never get there.
- Know and address your GAO and OIG criteria.
- Share proposed corrective action plans with your GAO and OIG reviewers and solicit their input.



# HUD's Rental Housing Assistance Program Environment

---

- Three major types of rental housing assistance programs: Public Housing, Tenant-based Housing Vouchers and Project-based Housing Assistance.
- Over 4.8 million low-income households served each year.
- Programs are administered through intermediaries consisting of 4,200 public housing agencies and 22,000 private housing owners & management agents.
- Complicated programs with varying eligibility requirements and income exclusion and deduction rules for determining subsidy amounts.
- No data or focus on the physical condition of the housing in 1994.
- A FY 2000 baseline estimate of \$3.2 billion in gross annual improper payments, constituting 17% of \$18.8B in annual payments.



# Improved Controls Over Physical Conditions of Subsidized Housing

---

- New uniform national physical condition standards.
- Automated physical inspection process, with baseline and cyclical follow-up inspections.
- Life-threatening or exigent health and safety violations identified are addressed in 72 hours.
- The percentage of public housing properties meeting or exceeding HUD standards has risen from 83% to 92%, and actions are being taken on substandard properties.
- The percentage of multifamily housing properties meeting or exceeding HUD standards has risen from 87% to 96%, and substandard properties are under improvement plans.

# Types of Improper Payments in HUD's Rental Housing Assistance Programs

---

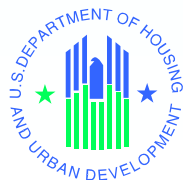
- Errors in program administrator subsidy determinations;
- Errors due to tenant underreporting of household income; and
- Errors in billing and payment processing.



# Corrective Action Plans That Address Root Causes of Improper Payments

---

- Communication with intermediaries and industry groups on the problems and actions needed.
- Improved program guidance and training.
- Increased on-site monitoring of intermediary performance, with enhanced incentives/sanctions.
- Enhanced computer matching and data sharing for upfront verification of tenant income to avoid improper payments.



# Improved Computer Matching to Verify Household Income

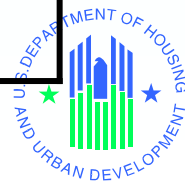
---

- Upfront vs Backend Verification (Prevention vs Detection)
- Most Current and Complete Income Data Source (HHS National Directory of New Hires Database vs Federal Tax Data or State Wage Data)
- Internet Web-based “Enterprise Income Verification” (EIV) Systems Model (Limits Access to Business Need in a Secured Environment)
- Reduces administrative burden and affords beneficiaries greater privacy and dignity.



# Results in Reducing Improper Rental Housing Assistance Payments

	Over-payments	Under-payments	Net Over-payments	Gross Improper Payments	Total Program Payments	Improper Payment Percent
2000 Baseline Measure	\$2.594B	\$.622B	\$1.972B	\$3.216B	\$18.8B	17.0%
2005 Measure	\$.943B	\$.341B	\$.602B	\$1.284B	\$27.2B	5.4%
Reduction	\$1.651	\$.281B	\$1.370B	\$1.932	(\$8.4B)	11.6
Percent Reduction	64%	45%	69%	60%	(45%)	68%



# FHA's Single Family Housing Programs

---

- Control environment/risk issues:
  - Monitoring of the performance of 11,000 private lenders and other underwriters, appraisers and servicers who process and service FHA-insured mortgages.
  - Administration of cost-effective contract services for the management and disposition of HUD-held properties acquired through defaults on FHA mortgages.
  - Constant balance of financial risk & program objectives to maintain a self-sustaining FHA insurance fund, with a need for sound actuarial reviews and credit subsidy cost models.

# Corrective Actions to Mitigate FHA Risk

---

- Established the Neighborhood Watch, Credit Watch and Appraiser Watch Programs to weed-out poor performers who increase the risk of mortgage claims.
- Developed automated algorithms for targeting highest risk performers for on-site monitoring.
- Strengthened contract terms and oversight to reduce improper asset management payments from 6.8% to 0.6% and increased the return on FHA property sales.
- Improved the predictive nature and accuracy of FHA's actuarial and credit subsidy models.
- Proposed legislation to reestablish FHA's market share and better serve low-income households and first-time homebuyers.



# The Face of HUD Today in 2007

---

- No high-risk program designations or material weakness issues reported by GAO or HUD/OIG.
- Greater credibility with OMB and the Congress.
- Proposed program changes to better serve low-income Americans and their communities, including:
  - FHA reform to offer less risk/cost alternatives to sub-prime lending products,
  - Implementation of asset management to improve public housing,
  - Program simplification to enable localities to better use available rental housing assistance resources to meet community needs.
- The need for constant vigilance in assessing and addressing risk.



# HUD Contact on Risk Management

---

- Jim Martin, Deputy CFO  
202-708-0614, extension 3706  
[james\\_m.\\_martin@hud.gov](mailto:james_m._martin@hud.gov)

