The Department of Housing and Urban Development: FY2010 Appropriations

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Summary

President Obama's first budget request included over $45 billion for the Department of Housing and Urban Development in FY2010. The requested funding level was roughly $4 billion more than was provided in regular annual appropriations in FY2009 by P.L. 111-8. However, it is about $9 billion less than total FY2009 funding for HUD, if the more than $13 billion in emergency economic stimulus funding provided by P.L. 111-5 is taken into account.

This budget request included increased funding for most HUD programs, such as the Section 8 voucher program, public housing program, housing programs for persons who are elderly or disabled, and block grant programs for states and localities. It also proposed several new initiatives focused on Administration priorities related to information technology and research capacity, energy efficiency, and distressed communities.

On July 23, 2009, the House passed its version of the FY2010 HUD funding bill (H.R. 3288). It included increases in funding over the President's requested level for many HUD programs. It did not fund all of the President's new initiatives, citing a need for authorizing legislation (H.Rept. 111-218). In total, the House-passed bill would have provided almost $1.6 billion (3.4%) more in new appropriations for HUD than the President requested.

On August 5, 2009, the Senate Appropriations Committee reported its version of H.R. 3288 (S.Rept. 111-69). Like the House-passed version, it included increases in funding for many HUD programs. It also included funding for some, but not all, of the President's new initiatives. The bill would have included about $1.2 billion less in new appropriations for HUD than the House-passed bill, but $343 million (0.7%) more than the President's request. On September 17, 2009, the bill was approved by the full Senate, with several policy-related amendments, none of which affected funding levels.

Because most of the annual appropriations bills were not enacted before the start of the 2010 fiscal year, Congress approved a series of short-term continuing resolutions (CR) to maintain funding for government operations.

On December 16, 2009, President Obama signed the Consolidated Appropriations Act, 2010 (P.L. 111-117) into law, funding HUD and most other government agencies for the remainder of FY2010. The act provided a higher overall funding level for HUD than requested by the President, and higher than proposed by the Senate, but lower than proposed by the House. It funded versions of several of the Obama Administration's new initiatives, including the Choice Neighborhoods Initiative and the Energy Innovation Fund.

This report analyzes recent trends in the HUD budget and tracks legislative action and summarizes key budget issues in the FY2010 budget process.

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Introduction to the Department of Housing and Urban Development (HUD)

Most of the funding for the activities of the Department of Housing and Urban Development (HUD) comes from discretionary appropriations provided each year in the annual appropriations acts enacted by Congress. HUD's programs are primarily designed to address housing problems faced by households with very low incomes or other special housing needs. These include several programs of rental assistance for persons who are poor, elderly, and/or have disabilities. Three rental assistance programs—Public Housing, Section 8 Vouchers, and Section 8 project-based rental assistance—account for the majority of the Department's non-emergency funding (almost 74% in FY2009). Two flexible block grant programs, HOME and Community Development Block Grants (CDBG), help communities finance a variety of housing and community development activities designed to serve low-income families. Other, more specialized, grant programs help communities meet the needs of homeless persons, including those with AIDS. HUD's Federal Housing Administration (FHA) insures mortgages made by lenders to lower-income home buyers, many with below-average credit records, and to developers of multifamily rental buildings containing relatively affordable units. FHA collects fees from insured borrowers, which are used to sustain the insurance fund and offset its administrative costs. Surplus FHA funds have been used to offset the cost of the HUD budget.

In recent years, the HUD budget has also received significant amounts of emergency supplemental funding. Almost $20 billion was provided through HUD's budget for recovery assistance to communities affected by Hurricane Katrina and the other 2005 hurricanes. Most recently, the economic stimulus legislation (P.L. 111-5) provided over $13 billion to HUD's programs.

Table 1 presents total enacted appropriations for HUD over the past five years, including emergency appropriations.

Table 1. Department of Housing and Urban Development Appropriations, FY2005-FY2009

(net budget authority in billions)

FY2005	FY2006	FY2007	FY2008	FY2009
31.92	50.68[a]	35.80[b]	47.66[c]	55.20[d]

Source: Figures are taken from tables produced by the House Appropriations Committee. Final appropriations levels for any fiscal year include all supplemental appropriations or rescissions. They do not reflect revised estimates of offsetting receipts.

a. Figure includes $17.1 billion ($11.9 billion in P.L. 109-148 and $5.2 billion in P.L. 109-234) in emergency supplemental appropriations enacted in response to the 2005 hurricanes. Regular FY2006 HUD appropriations totaled just under $33.6 billion.

b. Figure includes $7 million in emergency supplemental funding.

c. Figure includes $3.22 billion (P.L. 110-116 and P.L. 110-252) in emergency supplemental funding in response to the 2005 hurricanes and $6.8 billion (P.L. 110-252 and P.L. 110-329) in emergency supplemental funding for 2008 disasters. Regular FY2008 appropriations totaled $37.64 billion.

d. Figure includes $13.67 billion in emergency funding provided as fiscal stimulus by P.L. 111-5.

Overview and Recent Trends in HUD Funding

HUD's annual funding, or budget authority, is made up of several components, including regular annual appropriations, emergency appropriations, rescissions, and offsets.[1]

HUD's programs and activities are funded almost entirely through *regular annual appropriations*, also referred to as discretionary appropriations.[2] As a result, the amount provided in the annual appropriations acts each year generally determines how much funding will be obligated and eventually spent for each of HUD's programs and activities.

In some years, Congress will also provide *emergency appropriations*, generally in response to disasters, through one or more of HUD's programs. These funds are generally provided outside of the regular appropriations acts—often in emergency supplemental spending bills—and are generally provided in addition to regular program level funding.

Congressional appropriators are generally subject to limits in the amount of new, non-emergency, discretionary appropriations they can provide in a year. One way to stay within these limits is to provide less in regular annual appropriations. Another way is to find offsets for spending. A portion of the cost of HUD's regular annual appropriations acts is generally offset in two ways. The first is through *rescissions* or cancellations of unobligated or recaptured balances from

[1] For more information, see CRS Report RS20095, *The Congressional Budget Process: A Brief Overview*, by (name red acted).

[2] According to the Congressional Quarterly's American Congressional Dictionary, discretionary appropriations are defined as appropriations not mandated by existing law and therefore made available annually in appropriation bills in such amounts as Congress chooses. The Budget Enforcement Act of 1990 defines discretionary appropriations as budget authority provided in annual appropriation acts and the outlays derived from that authority, but it excludes appropriations for entitlements.

previous years' funding. The second is through *offsetting receipts and collections*, generally derived from fees paid by HUD partners or clients.

The interaction between new appropriations and offsets provided through rescissions, receipts, and collections, determines HUD's total budget authority. Budget authority is also the "cost" of the HUD budget, as estimated by the Congressional Budget Office in its scorekeeping process.[3] The total amount of budget authority provided to HUD each year, while important for federal budgeting purposes, is not necessarily the best measure of the amount of funding that is being provided for HUD's programs and activities.

For example, if Congress has increased appropriations for HUD's programs and activities at the same time that offsetting receipts are increasing by a greater amount, then HUD's total budget authority may appear to be declining. Conversely, if Congress has reduced appropriations for HUD's programs and activities at the same time that offsetting receipts are declining by a greater amount, then HUD's budget authority may appear to be increasing. If Congress wished to maintain level budget authority for HUD programs, Congress would increase appropriations if offsets are declining (or, provide less appropriations if offsets are increasing).

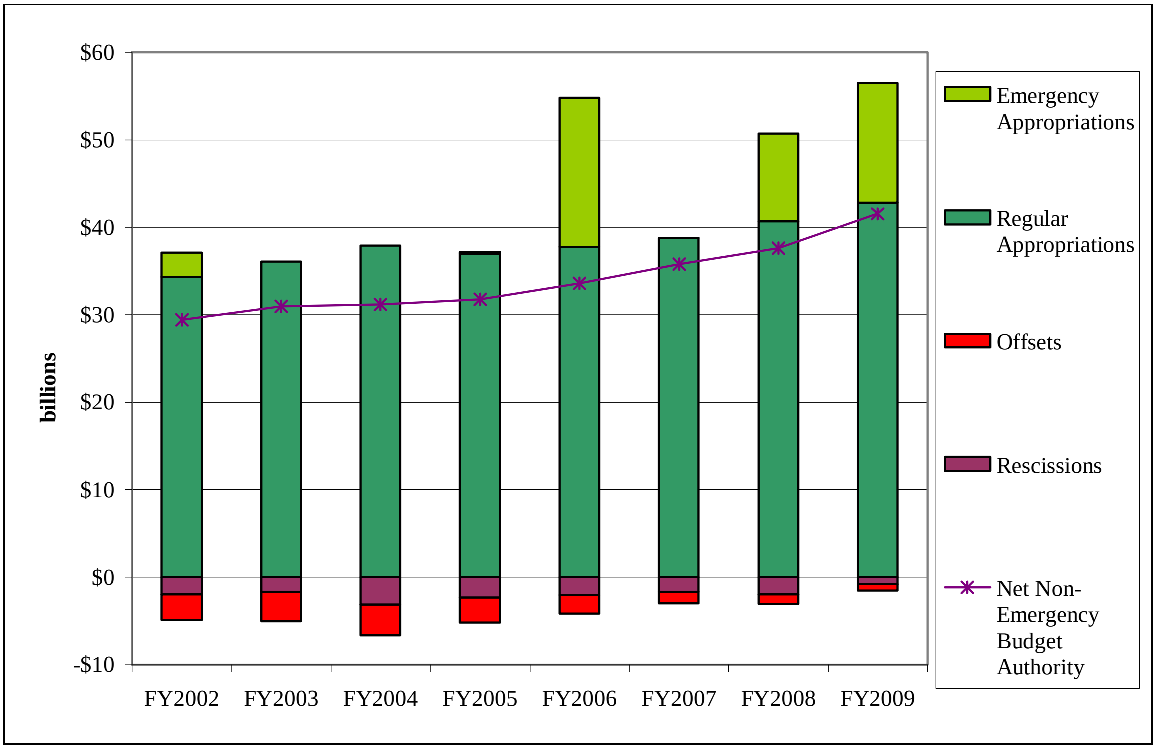
As shown by the line in **Figure 1**, net non-emergency budget authority for HUD increased 41% between FY2002 and FY2009, from over $29 billion to over $40 billion. However, the increase in net new non-emergency budget authority masks several important trends.

From FY2002 to FY2009, regular annual appropriations, which is the amount available to fund HUD's programs and activities, grew by 20%. During the same period, the amount available in offsetting receipts and collections, which Congress uses to reduce the cost of providing new appropriations, declined by more than 75% (see **Figure 1**). As a result, the increase in total non-emergency budget authority for HUD from FY2002 to FY2009 is not fully attributable to increases in appropriations for HUD's programs and activities; rather, part of the increase in total budget authority is attributable to decreases in the amount available in offsetting receipts.

For example, in FY2007, Congress provided $39 billion in regular appropriations for HUD's programs and activities. As shown by the line in **Figure 1**, since $3 billion was available from offsets and rescissions, HUD's net non-emergency budget authority was only $36 billion. If less had been available in offsets, the cost to Congress of providing $39 billion in regular appropriations (net new budget authority) would have been higher.

[3] According to the Congressional Quarterly's American Congressional Dictionary, scorekeeping is defined as the process of calculating the budgetary effects of pending and enacted legislation and assessing its impact on applicable budgetary targets, as required by the Congressional Budget Act of 1974.

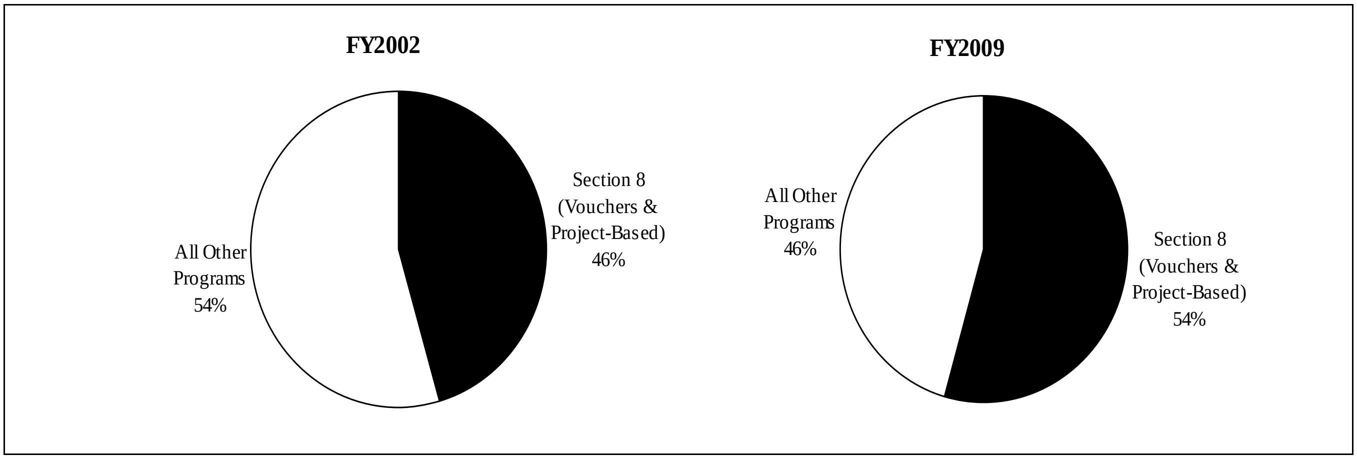
Figure 1. HUD Funding, FY2002-FY2009



Source: Prepared by CRS on the basis of annual appropriations documents.

The increase in regular (non-emergency) appropriations shown in **Figure 1** (from just over $35 billion in FY2002 to over $42 billion in FY2009) is largely attributable to the growth in appropriations for the project-based and tenant-based Section 8 programs. From FY2002 to FY2009, non-emergency appropriations for the Section 8 programs grew by 50%; non-emergency appropriations for all other programs and activities during that period grew by only about 4%. As can be seen in **Figure 2**, appropriations for the Section 8 program have grown from about 46% of HUD's regular appropriations in FY2002 to about 54% of HUD's regular appropriations in FY2009. Congress has increased funding for these programs in part because it has funded new Section 8 vouchers, in some cases to serve new families, and in some cases to provide assistance to families whose project-based rental assistance has expired or whose public housing has been demolished or sold. In other cases, it has required new appropriations to continue to serve the same families in the project-based rental assistance program, as previous funding for long-term rental assistance contracts has run out.

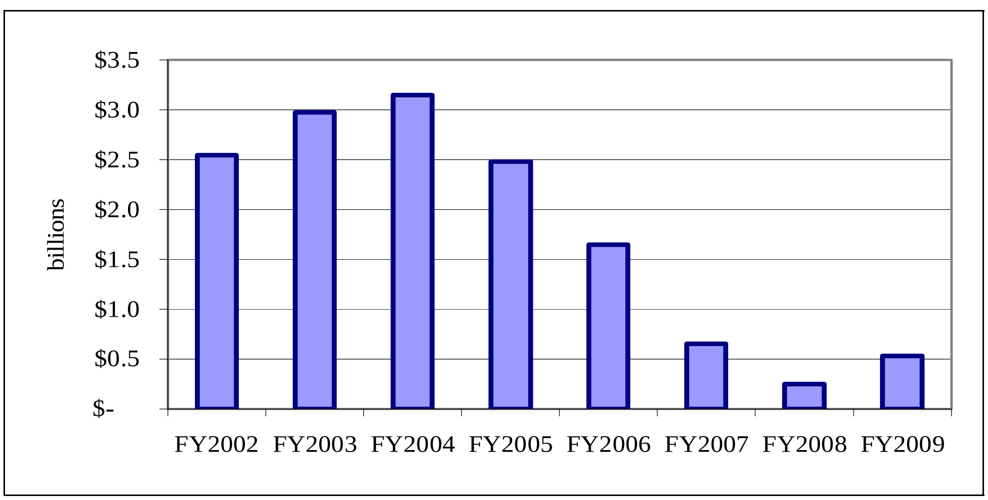
Figure 2. Funding for Section 8 as a Percentage of Total HUD Appropriations, FY2002 and FY2009



Source: Prepared by CRS on the basis of annual appropriations documents.

The decline in offsetting receipts over this period is largely attributable to declines in excess receipts in the Federal Housing Administration's (FHA) mortgage insurance programs (discussed later in this report). As shown in **Figure 3**, from the peak (in FY2004) to the lowest point (in FY2008), the amount of offsetting receipts available from the FHA mortgage insurance program declined by 92%. While the amount of FHA offsetting receipts increased in FY2009, they are expected to decline below the FY2008 level in FY2010, although, as discussed later in this report, that decline may be partially offset by an expected increase in receipts from the Government National Mortgage Association (GNMA) account.

Figure 3. FHA Offsetting Receipts, FY2002-FY2009



Source: Prepared by CRS on the basis of annual appropriations documents.

FY2010 Appropriations

Table 2 presents President Obama's FY2010 budget request for HUD and the congressional response, compared to the prior year's enacted budget authority. Four totals are given in **Table 2**:

"budget authority provided" and "available budget authority," both including and excluding emergency appropriations. Total budget authority *provided* includes current year appropriations, plus advance appropriations provided in the current fiscal year for use in the next fiscal year; total *available* budget authority includes current year appropriations, plus advance appropriations provided in the prior fiscal year for use in the current fiscal year. Congress is scored by CBO for the amount of available budget authority in an appropriations bill; however, the Appropriations Committees' documents often discuss the amount of budget authority provided.

President Obama's first HUD budget requested a 7.7 % increase in regular annual appropriations for HUD programs. However, that increase would require a 9.5% increase in net new budget authority, because of a decline in the amount requested for rescission.

The House-passed version of H.R. 3288 would have provided a more than 11% increase in regular annual appropriations for HUD programs, 3% more than the President's request. That increase would have required a more than 13% increase in net new budget authority, also attributable to a decline in rescissions.

The Senate-passed version of H.R. 3288 proposed less than the House-passed bill, but more than the President's request. It would have resulted in an 8.5% increase in regular annual appropriations for HUD programs, which would have required a more than 10% increase in net new budget authority.

The final FY2010 funding bill split the difference between the House and Senate versions, providing more than the Senate bill, but less than the House bill. Specifically, it provided a 9% increase in regular annual appropriations for HUD programs, which required an 11% increase in net new budget authority. These overall funding levels are about 1% higher than President Obama requested.

Table 2. HUD Appropriations, FY2009-FY2010

(in billions of dollars)

Accounts	FY2009 Enacted	FY2010 Request	FY2010 House	FY2010 Senate	FY2010 Consolidated
Appropriations					
Management and Administration	1.303	1.346	1.346	1.346	1.346
Tenant Based Rental Assistance (Sec. 8 vouchers) (includes advance appropriation for subsequent year)	16.817	17.836	18.242	18.137	18.184
Project Based Rental Assistance (Sec. 8) (includes advance appropriation for subsequent year)	7.500	8.100	8.700	8.100	8.552
Public housing capital fund	2.450	2.244	2.500	2.500	2.500
Public housing operating fund	4.455	4.600	4.800	4.750	4.775
Choice Neighborhoods	0.000	0.250	0.000	0.250	0.065
HOPE VI	0.120	0.000	0.250	0.000	0.135
Native American housing block grants	0.645	0.645	0.750	0.670	0.700
Indian housing loan guarantee	0.009	0.007	0.007	0.007	0.007

Accounts	FY2009 Enacted	FY2010 Request	FY2010 House	FY2010 Senate	FY2010 Consolidated
Native Hawaiian Block Grant	0.010	0.010	0.012	0.013	0.013
Native Hawaiian loan guarantee	0.001	0.001	0.001	0.001	0.001
Housing, persons with AIDS (HOPWA)	0.310	0.310	0.350	0.320	0.335
Rural Housing Economic Development	0.026	0.000[a]	0.000[a]	0.000[a]	0.000[a]
Energy Innovation Fund	0.000	0.100	0.050	0.075	0.050
Community Development Fund (Including CDBG)	3.900	4.450	4.599	4.450	4.450
Sec.108 loan guarantee; subsidy	0.006	0.000	0.006	0.000	0.006
Brownfields redevelopment	0.010	0.000	0.025	0.000	0.018
HOME Investment Partnerships	1.825	1.825	1.995	1.825	1.825
Self-Help Homeownership	0.064	0.077	0.085	0.085	0.082
Homeless Assistance Grants	1.677	1.794	1.850	1.875	1.865
Housing for the Elderly	0.765	0.765	1.000	0.785	0.825
Housing for Persons with Disabilities	0.250	0.250	0.350	0.265	0.300
Manufactured Housing Fees Trust Fund	0.016	0.016	0.016	0.016	0.016
Housing Counseling Assistance	0.065	0.100	0.075	0.100	0.088
Rental Housing Assistance	0.028	0.040	0.040	0.040	0.040
Research and technology	0.058	0.050	0.050	0.048	0.048
FHA Expenses	0.203	1.010	0.212	0.505	0.217
GNMA Expenses	0.012	0.000	0.000	0.000	0.000
Fair housing activities	0.054	0.072	0.072	0.072	0.072
Office, lead hazard control	0.140	0.140	0.140	0.140	0.140
Working capital fund	0.224	0.200	0.200	0.200	0.200
Inspector General	0.120	0.120	0.120	0.126	0.125
Legislative Proposals	0.000	0.020	0.100	0.020	0.020
Appropriations Subtotal (Including advances provided in current year for subsequent year)	43.062	46.377	47.942	46.721	46.998
Rescissions					
Rental housing assistance rescission	-0.038	-0.028	-0.028	-0.028	-0.072
Section 8 Voucher Rescission	-0.750	0.000	0.000	0.000	0.000
Rescissions Subtotal	-0.788	-0.028	-0.028	-0.028	-0.072
Offsetting Collections and Receipts					
Manufactured Housing Fees Trust Fund	-0.011	-0.007	-0.007	-0.007	-0.007
Federal Housing Administration (FHA)	-0.531	-0.140	-0.140	-0.140	-0.140
GNMA	-0.193	-0.720	-0.720	-0.718	-0.720
Legislative Proposals	-0.005	0.000	0.000	0.000	0.000
Offsets Subtotal	-0.740	-0.867	-0.867	-0.865	-0.867

Accounts	FY2009 Enacted	FY2010 Request	FY2010 House	FY2010 Senate	FY2010 Consolidated
Emergency Funding[b]					
ARRA Supplemental Public Housing Capital Grants	4.000	0.000	0.000	0.000	0.000
ARRA Indian Housing Block Grants	0.510	0.000	0.000	0.000	0.000
ARRA Community Development Block Grants (CDBG)	1.000	0.000	0.000	0.000	0.000
ARRA Homelessness Prevention	1.500	0.000	0.000	0.000	0.000
ARRA Assisted Housing Stability and Energy and Green Retrofit Investments	2.250	0.000	0.000	0.000	0.000
ARRA Neighborhood Stabilization Program	2.000	0.000	0.000	0.000	0.000
ARRA Tax Credit Assistance Program	2.250	0.000	0.000	0.000	0.000
ARRA Lead paint abatement grants	0.100	0.000	0.000	0.000	0.000
ARRA GSE Conforming Loan Limit Changes	0.038	0.000	0.000	0.000	0.000
ARRA Office of the Inspector General	0.015	0.000	0.000	0.000	0.000
Emergency Funding Subtotal	**13.663**	**0.000**	**0.000**	**0.000**	**0.000**
Totals					
Budget Authority Provided, excluding emergency funding	**41.535**	**45.483**	**47.048**	**45.828**	**46.059**
Budget Authority Available, excluding emergency funding (adjusted for advances)	**41.293**	**45.483**	**47.054**	**45.828**	**46.066**
Budget Authority Provided, including emergency funding	**55.198**	**45.483**	**47.048**	**45.828**	**46.059**
Budget Authority Available, excluding emergency funding (adjusted for advances)	**54.956**	**45.483**	**47.054**	**45.828**	**46.066**

Source: Prepared by CRS based on HUD Congressional Budget Justifications, H.R. 3288, H.Rept. 111-218 (adjusted for floor amendments), S.Rept. 111-69 (adjusted for floor amendments), and P.L. 111-117 and H.Rept. 111-366.

a. In lieu of funding the RHED program, the President proposed funding a new Rural Innovation Fund within the Community Development Fund. The House and Senate bills adopted this recommendation, as did P.L. 111-117.

b. For an expanded discussion of emergency supplemental funding provided by the American Recovery and Reinvestment Act of 2009 (P.L. 111-5), see Appendix A of CRS Report RL34504, *The Department of Housing and Urban Development: FY2009 Appropriations*, by (name redacted) et al.

Key Budget Issues, FY2010

New Administration "Crosscutting" Initiatives

The FY2010 budget was the first of the Obama Administration. While it was completed on a short time-frame, it contained several new initiatives that reflect the Obama Administration's priorities. Specifically, as stated in the budget documents, the budget request reflected five goals:

1. address the nation's housing and economic crisis;
2. restore federal leadership on promoting affordable rental housing;
3. invest strategically in rural and metropolitan communities;
4. drive energy efficient housing and inclusive, sustainable growth; and
5. transform the way that HUD does business.

While these goals are reflected throughout the budget request, several new initiatives were proposed, and are summarized below.

Transformation Initiative

HUD has been criticized for many years for its information technology systems, as well as for the amount of research it has produced.[4] According to HUD's FY2010 Congressional Budget Justifications, the Department's operations face serious challenges arising from internal resource and structural constraints, while the scope of housing and urban development problems facing the nation is great.

President Obama's Transformation Initiative requested the authority to transfer up to 1% of funding provided for most HUD accounts to fund activities related to the development of

- Research, Evaluation and Performance Metrics;
- Program Demonstrations;
- Technical Assistance and Capacity Building; and
- Next-Generation Information Technology.

HUD estimated that, at the requested levels, the transfer authority would make $433.5 million available to the Transformation Initiative in FY2010. In addition, the budget requested $20 million in new appropriations to fund specific activities designed to address fraud, including fraud in the FHA mortgage insurance programs (discussed later in this report).

[4] See National Research Council, *Rebuilding the Research Capacity at HUD*, Committee to Evaluate the Research Plan of the Department of Housing and Urban Development, Center for Economic, Governance, and International Studies, Division of Behavioral and Social Sciences and Education, Washington, D.C.: The National Academies Press, 2008.

Congressional Response

The **House-passed version of H.R. 3288** included the $20 million requested for combating mortgage fraud and a more limited form of transfer authority than requested by the President. Specifically, the House bill approved the transfer of up to 1% of funding from most accounts, but did not permit the Secretary to transfer funding from the Section 8 tenant-based rental assistance or public housing Operating Fund accounts. The Committee Report contended that the funds in these accounts are "utilized immediately to assist families and cannot be transferred into a slower-spending account." The report also directed how the Department should spend the funds. It would have required that the funds be spent first to purchase a new information technology system for FHA and the Section 8 voucher program. It would also have required that the funds be spent to study sustainable building practices on Native American lands, study home equity conversion mortgages, provide technical assistance on regional housing and transformation planning, and study cities in transition.

Like the House version, **the Senate-passed version of H.R. 3288** would have funded the President's Transformation Initiative by including $20 million for combating mortgage fraud and permitting a limited form of transfer authority. The Senate version would have permitted the transfer of up to 1% of funding from most accounts, but not the Section 8 tenant-based or project-based rental assistance accounts, the public housing Operating Fund account, or the Homeless Assistance Grants account. The bill included language directing the Department to prioritize the funding of a new system for the FHA and Section 8 voucher programs, and studies of Native American housing needs, the Moving to Work (MTW) demonstration program, and the conversion of public housing to project-based vouchers.

The final FY2010 funding bill, **P.L. 111-117**, provides $20 million for combating mortgage fraud, as requested by the President, and also authorizes the requested transfer authority for most accounts. It does not authorize a 1% transfer from the Section 8 tenant project-based rental assistance account, the public housing Operating Fund account, or the Homeless Assistance Grants account, but does authorize the transfer of up to $100 million from the Section 8 tenant-based rental assistance account and up to $15 million from the Operating Fund. The act follows the Senate recommendation by setting aside at least $80 million, but not more than $180 million, of the transfer funding for new technology systems for the Section 8 voucher program and the FHA. It also follows the Senate bill by directing the Secretary to complete an assessment of the housing needs of Native Americans and an evaluation of the MTW demonstration program.

Energy Innovation Fund

The Energy Innovation Fund is an Obama Administration proposal to "catalyze private sector investment in the energy efficiency of the Nation's housing stock." According to HUD's FY2010 Congressional Budget Justifications, the $100 million fund would provide up to $50 million for a "Local Initiatives Fund," which would provide funding for "a mix of incentive grants, demand-side subsidies, and supply-side leveraging to support the expansion or start-up" of 10 or more local energy retrofit funds. Another $25 million would be available to develop a new pilot energy efficient mortgage program in FHA's single family mortgage insurance program. The final $25 million would be available to develop a Multifamily Energy Pilot to fund energy efficiency improvements in certain HUD-insured multifamily rehabilitation projects.

Congressional Response

The House-passed version of H.R. 3288 included $50 million for the President's Energy Innovation Fund, half the amount requested. The bill proposed no funding for the Local Initiatives Fund, but proposed funding the Multifamily Energy Pilot and the energy efficient mortgage program at the requested levels.

The Senate-passed version included funding for all three components of the President's Energy Innovation Fund, but at a lower level than requested. Specifically, the bill included $20 million each for the energy efficient mortgage and multifamily energy pilot program and $35 million for the Local Initiatives Fund.

P.L. 111-117 provided $50 million for the Energy Innovation Fund, and, like the House bill, allocated half for the single-family energy efficient mortgage program and half for the Multifamily Energy Pilot. It did not fund the Local Initiatives Fund.

Choice Neighborhoods

The Choice Neighborhoods Initiative is a new Obama Administration proposal. It is modeled after the HOPE VI program, which provides competitive grants to public housing authorities to revitalize severely distressed public housing. The Choice Neighborhood Initiative would broaden the scope of HOPE VI, by offering competitive grants to revitalize severely distressed neighborhoods, not limited to public housing. In addition to PHAs, local governments, nonprofits, and for-profit developers would be eligible to compete for funds primarily aimed at the transformation, rehabilitation, and replacement of HUD public and assisted housing that cannot be funded through current annual formula or contract payments. According to HUD's Congressional Budget Justifications, in addition to addressing the HUD assisted housing, the program is aimed at "supporting affordable housing and community development activities in surrounding communities and improving the lives of area residents by creating job opportunities, improving schools and providing work and rent incentives that promote family self-sufficiency." The President's FY2010 budget proposed no new funding for HOPE VI, but requested $250 million for the new Choice Neighborhoods Initiative.

Congressional Response

The **House-passed version of H.R. 3288** did not include funding for the President's Choice Neighborhoods Initiative. In H.Rept. 111-218, the Committee stated that it "is not the appropriate body to authorize a new initiative of this scale, especially when the Financial Services Committee has worked diligently over the past several years to reauthorize HOPE VI." Instead, the House bill proposed funding the HOPE VI program at $250 million.

The **Senate-passed version of H.R. 3288** proposed funding the President's Choice Neighborhoods Initiative at the requested level, and did not include new funding for the HOPE VI program. In S.Rept. 111-69, the Committee expressed support for the idea of broadening the impact of community revitalization efforts, but noted that distressed public housing is still in need of revitalization. Therefore, the bill directed HUD to target at least $165 million of the $250 million provided for Choice Neighborhoods to projects where Public Housing Authorities (PHAs) are the lead entities.

P.L. 111-117 provided funding for the HOPE VI program as well as a Choice Neighborhoods demonstration. Specifically, the bill appropriates $200 million to the HOPE VI account, but sets aside up to $65 million for a Choice Neighborhoods demonstration, subject to requirements spelled out in the statute.

Combating Abusive and Fraudulent Mortgage Practices Initiative

The Combating Abusive and Fraudulent Mortgage Practices Initiative would be an agency-wide initiative to help detect and prevent mortgage fraud and abuse. According to HUD's Congressional Budget Justifications, the initiative would focus on combating fraud related to mortgage modifications, ensuring smooth implementation of the Real Estate Settlement Procedures Act (RESPA) rule and the Secure Fair Enforcement Mortgage Licensing Act of 2008 (SAFE Act), and preventing fraud in the Federal Housing Administration's (FHA) single-family programs. FHA's share of the mortgage market has increased from less than 2% in 2006 to 30% at the end of 2008. HUD's Congressional Budget Justifications point to this increase in FHA's market share, the larger number of lenders participating in FHA, and a recent increase in FHA's single-family loan limit as increasing the opportunities for fraud in FHA's single family programs.

The initiative would provide increased funding and resources for a number of programs and offices within HUD to help identify and prevent mortgage fraud. Specifically, the initiative would include $20 million under the Transformation Initiative to provide technology, training, and technical assistance to help detect fraud; a combined $13 million funding increase for two fair housing programs, the Fair Housing Initiatives Program and the Fair Housing Assistance Program; and $4 million to hire more staff in the Office of Fair Housing and Equal Opportunity, the Office of Housing, and the Office of the General Counsel.

Congressional Response

As noted earlier, both the House-passed and Senate-passed versions of H.R. 3288, as well as the final version of the FY2010 funding bill (P.L. 111-117), included the $20 million requested for combating mortgage fraud through the Transformation Initiative. Both versions of H.R. 3288 and the final statute also included increased funding for HUD's Fair Housing programs and increased funding for hiring staff, as requested by the President.

Housing Trust Fund

The Housing and Economic Recovery Act of 2008 (P.L. 110-289) established a Housing Trust Fund that would provide a permanent, dedicated source of funding for affordable housing activities outside of the annual appropriations process. P.L. 110-289 identified contributions from Fannie Mae and Freddie Mac as the dedicated funding source. However, Fannie Mae's and Freddie Mac's contributions to the Housing Trust Fund were indefinitely suspended in November 2008 by their conservator, the Federal Housing Finance Agency, due to Fannie's and Freddie's financial difficulties. The suspension of Fannie's and Freddie's contributions left the Housing Trust Fund without a source of funding. While P.L. 110-289 authorized funding other than the contributions from Fannie Mae and Freddie Mac to be appropriated or transferred to the Housing Trust Fund, no funding has yet been directed to the Housing Trust Fund.

The President's budget proposed $1 billion in mandatory funding for the Housing Trust Fund, but did not identify a source for those funds. Neither the House-passed nor the Senate-passed version of H.R. 3288 mentioned the Housing Trust Fund. Like the House and Senate bills, P.L. 111-117 did not reference the Trust Fund.

Although no funding for the Housing Trust Fund was in included in the regular FY2010 HUD appropriations, proposals to fund the Housing Trust Fund have been included in other legislation introduced in the 111th Congress. For details on these funding proposals, see CRS Report R40781, *The Housing Trust Fund: Background and Issues*, by (name redacted).

Section 8 Tenant-Based Rental Assistance (Housing Choice Vouchers)

The Section 8 tenant-based rental assistance account funds the Section 8 voucher program and is the largest account in the HUD budget. The Section 8 voucher program provides portable rental subsidies that low-income families use to reduce their housing costs in the private market. HUD currently funds more than two million Section 8 vouchers, which are administered at the local level by quasi-governmental Public Housing Authorities (PHAs). This account—the largest in HUD's budget—funds the cost of those vouchers and the cost of administering the program. Given its size, this account is often the focus of the most intense debate in the HUD funding deliberations.

Table 3 provides a breakdown of funding for the account. It is followed by a discussion of key funding issues within the account.

Table 3. Section 8 Tenant-Based Rental Assistance Funding

(in billions of dollars)

Section 8 Tenant-Based Rental Assistance	FY2009 Enacted	FY2010 Request	FY2010 House	FY2010 Senate	FY2010 Consolidated
Total, Section 8 Tenant-Based Rental Assistance (budget authority provided)	**16.817**	**17.836**	**18.242**	**18.187**	**18.184**
Total, Section 8 Tenant-Based Rental Assistance (budget authority available, pre-rescission)	**16.975**	**17.836**	**18.242**	**18.187**	**18.184**
Total, Section 8 Tenant-Based Rental Assistance (budget authority available, post-rescission)	**16.225**	**17.836**	**18.242**	**18.187**	**18.184**
Current Year Budget Authority	12.817	13.836	14.242	14.187	14.184
Advance Appropriation provided for next FY	4.000	4.000	4.000	4.000	4.000
Advance Appropriation available for current FY	4.158	4.000	4.000	4.000	4.000
Advance Appropriation available for current FY, less rescission (see below)	3.408	4.000	4.000	4.000	4.000
Voucher Renewal Funding					
Gross Budget Authority for Voucher Renewals	15.200	16.189	16.387	16.339	16.339
Rescission from advance appropriation	-0.750	0.000	0.000	0.000	0.000
Net Budget Authority for Voucher Renewals	14.450	16.189	16.387	16.339	16.339

Section 8 Tenant-Based Rental Assistance	FY2009 Enacted	FY2010 Request	FY2010 House	FY2010 Senate	FY2010 Consolidated
Rental subsidy reserve	0.100	0.150	0.150	0.150	0.150
Other Set-Asides					
Administrative fees	1.500	1.494	1.600	1.550	1.575
Additional Fees	0.050	0.050	0.050	0.050	0.050
Family Self Sufficiency (FSS) Coordinators	[a]	0.050	0.060	0.050	0.060
Tenant Protection Vouchers	0.150	0.103	0.120	0.103	0.120
New Incremental Vouchers	0.125	0.000	0.075	0.095	0.090
Working Capital Fund/Transformation Initiative Transfer[b]	0.008	0.178	0.000	0.050	0.100

Source: Prepared by CRS on the basis of tables provided by the Appropriations Committee, the FY2010 Omnibus Appropriations Act (P.L. 111-8), HUD Congressional Budget Justifications, the President's FY2010 Budget, and House and Senate versions of H.R. 3288.

a. $50 million was included in administrative fee funding for FSS coordinators.

b. The President requested the authority to transfer up to 1% to the Transformation Initiative; the House bill prohibited such a transfer, and the Senate bill limited the transfer to $50 million.

Current Appropriations, Advance Appropriations, and Rescissions

The budget authority for the tenant-based rental assistance account is made up of two components: current year appropriations and advance appropriations. Current year appropriations are provided in a fiscal year for use in that fiscal year. Advance appropriations are provided in a fiscal year for use in the subsequent fiscal year. For budget scoring purposes, the Appropriations Committee is charged for an advance appropriation in the year it becomes available for use. Since FY2001, funding for the Section 8 program has included an advance appropriation, and for most years, the advance appropriation was the same amount every year. As a result, the amount of funding that was *provided* in a given year (the current year appropriation, plus the advance for the next year) was equal to the amount of budget authority *available* to the program for that fiscal year (the current year appropriation, plus the advance from the previous year).

In FY2009, the advance appropriation provided by Congress to become available in FY2010 was less than the amount of the advance appropriation that became available in FY2009 (which had been provided in FY2008). As a result, the amount of budget authority *provided* in FY2009 ($16.817 billion) was less than the amount of budget authority *available* to the program in FY2009 ($16.975 billion). Congress was "scored" by CBO for the amount of budget authority *available* in the fiscal year, rather than the amount *provided* by the bill.

However, it is the amount *provided* by the bill that determines the relevant program level. The public housing authorities (PHAs) that administer the voucher program are funded, and therefore manage their programs, on a calendar year basis rather than a fiscal year basis. Since the current year appropriation plus the advance for the subsequent year are used by the program in the calendar year, it is the amount *provided* in a fiscal year that is actually used by the program for the calendar year (which is, effectively, the program year). **Figure 4** illustrates this concept.

Figure 4. Example of Funding Availability

FY2009 Regular Appropriations Available									FY10 Advance Available		
Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09
2009 Calendar Year											
FY2010 Regular Appropriations Available									FY11 Advance Available		
Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
2010 Calendar Year											

Source: Prepared by CRS

Further, in FY2009, Congress enacted a $750 million rescission from the advance appropriation, which served to reduce the amount available to the program in the calendar year.

In his FY2010 budget, the President requested that the same amount be provided in advance appropriations as was provided in the previous year, so the amount *available* and the amount *provided* would be the same. The President also did not request any rescissions of unobligated balances from the tenant-based rental assistance account.

Both the House-passed and Senate-passed bills, as well as the final FY2010 funding law (P.L. 111-117), followed the President's request on advance appropriations and rescissions in the tenant-based rental assistance account.

Renewal Funding

These complicated distinctions between funding types and periods of availability are directly relevant to the amount of funding available to PHAs in a given year to fund the renewal of the vouchers they are administering. The advance appropriation is used for renewals, and renewals account for the majority of funding in the account. As noted earlier, since the program is administered on a calendar year basis, the calendar year is the relevant period in which to measure funding for voucher renewals. **Table 4** provides a comparison of renewal funding for the calendar year, based on the amount of appropriations enacted in FY2009 and the amount requested for FY2010.

Table 4. Section 8 Voucher Renewal Funding

(in billions of dollars)

Renewal Funding	FY2009	FY2010 Request	FY2010 House	FY2010 Senate	FY2010 Consolidated
Amount provided in FY for use in CY	11.034	12.189	12.387	12.339	12.339
Advance appropriation available for use in CY	4.000	4.000	4.000	4.000	4.000
Rescission	-0.750	0.000	0.000	0.000	0.000
Total for renewals in CY	**14.284**	**16.189**	**16.387**	**16.339**	**16.339**[a]

Source: Prepared by CRS on the basis of tables provided by the Appropriations Committee, the FY2010 Omnibus Appropriations Act (P.L. 111-8), HUD Congressional Budget Justifications, the President's FY2010 Budget, and House and Senate versions of H.R. 3288.

a. The law permits up to $100 million of the amount provided for renewals to be used for upgrading the Voucher Management System, under the President's Transformation Initiative.

FY2009 Funding Issues

The FY2009 appropriations law provided just over $11 billion in new appropriations for renewals, as well as an advance of $4 billion. However, the bill also enacted a rescission of $750 million. Altogether, it resulted in $14.284 billion available for renewals in CY2009. All but $100 million of the renewal funds were allocated to PHAs using a formula established in the law. Specifically, a PHA's initial allocation was based on the number of vouchers it had leased, and the cost of those vouchers in FY2008, adjusted for inflation and a few other factors. Then, each PHA's allocation was prorated, or reduced, by an amount that corresponded with HUD's estimate of a portion of their outstanding unspent funds, referred to as Net Restricted Assets (NRA). The aggregate NRA offset equaled the amount rescinded ($750 million). PHAs were expected to then supplement their allocations of new funding with their unused NRA. This meant at least $15 billion should have been available to PHAs for renewals ($14.284 billion in new funding plus $750 million in NRA). The remaining $100 million was set aside as a reserve that HUD could use to adjust the allocations of agencies that (1) faced an increase in renewal costs due to portability or unforeseen circumstances, (2) faced an increase in leasing between the end of the fiscal year and the start of the calendar year, and (3) had unused project-based vouchers and special vouchers for veterans.

As directed by Congress, HUD based the CY2009 allocations on the utilization and cost data submitted by PHAs for FY2008. HUD used this same data to estimate PHAs' NRA. In some cases, HUD's estimates of costs (plus inflation), utilization, and NRA did not accurately represent PHAs CY2009 costs, utilization, and NRA balances. In some cases, the inaccurate estimates resulted from inaccurately reported data; in some cases, the difference resulted from significant changes in the cost and leasing conditions of agencies between the end of FY2008 and the start of CY2009.

Regardless of the reason, some PHAs found that their CY2009 funding was insufficient to cover the costs of all the vouchers they are currently using to serve families. HUD estimated that as many as 15% of PHAs administering the voucher programs faced such shortfalls. The Department worked with agencies to determine which were facing shortfalls, which could be assisted with the FY2009 $100 million renewal set-aside and $30 million of the administrative fee set-aside, and advised agencies as to how they could cut costs to stay within their budgets.[5] If a PHA does not have sufficient funding to renew all of its vouchers, the PHA may have to stop issuing vouchers, and, in some cases, families may lose assistance. HUD asked agencies that were facing shortfalls to contact the Department before terminating assistance to families.[6]

During Senate floor consideration of H.R. 3288, Senator Murray, the chairperson of the Transportation-HUD Subcommittee, offered an amendment to allow HUD to use up to $200 million of advance appropriations provided in FY2009 for use in FY2010 to supplement the

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[5] For more information, see the HUD presentation titled "Financial Management 2009," available at http://www.hud.gov/offices/pih/programs/hcv/webcasts/finman2009jun30.pdf, and HUD Makes Funds Available to Housing Agencies with Section 8 Difficulties: HUD issues guidance to agencies to keep families housed HUD News Release, New Release, HUD No. 09-143, July 31, 2009.

[6] Ibid.

budgets of those PHAs whose budget shortfalls leave them at risk of terminating assistance to families. The amendment was approved under unanimous consent.

The language adopted in the Senate during floor consideration was included in the second continuing resolution (P.L. 111-88). As a result, HUD was permitted to use $200 million of the advance appropriation provided in FY2009 for use in FY2010 to adjust PHAs' CY2009 budgets.

FY2010 Request and Congressional Action

For FY2010, the President requested $16.189 billion for voucher renewals, with no proposed rescissions. The President's budget request included an allocation formula similar to the FY2009 formula, but based on CY2009 data. It included language seeking permission to make adjustments to the data submitted by PHAs, in an attempt to avoid the problems encountered in FY2009. It also requested new authority for the Secretary to offset agency budgets for NRA balances, and the authority to reallocate those offsets to "high performing" PHAs, based on need. Similar to FY2010, it proposed a set-aside of $150 million for an adjustment reserve. HUD's Congressional Budget Justifications indicated that the amount requested would be sufficient to fund all vouchers currently in use. At an average cost of $7,455, the amount requested would be sufficient to fund 2.17 million vouchers.

The House-passed version of H.R. 3288 included about $200 million more for renewals than the President's requested level and proposed to allocate the funds differently than requested by the President. It proposed funding agencies based on their *FY*2009 data, and did not include the reallocation authority requested by the President. H.Rept. 111-218 stated that the new authorities requested were "not appropriate for the Committee on Appropriations to implement, but are the purview of the Financial Services Committee." The bill did include a $150 million adjustment pool, as requested by the President, to be used to increase the allocations of agencies facing unforeseen circumstances, portability, or increased leasing.

The Senate-passed version of H.R. 3288 included $150 million more for renewals than the President's request, but $50 million less than the House bill. Like the House bill, the Senate bill directed that the funds be allocated based on FY2009 data, and did not include the reallocation authority requested by the President. The Senate bill also included a $150 million adjustment pool.

The final FY2010 funding bill, P.L. 111-117, funds renewals at the Senate proposed level, with $150 million set aside for an adjustment pool. As proposed in both the House and Senate bills, the final FY2010 bill directs HUD to allocate funding based on FY2009 data, as opposed to calendar year data as requested in the President's budget, and does not provide the reallocation authority requested by the President. The law also permits the Secretary to transfer up to $100 million from the voucher renewal fund to the Transformation Initiative in order to fund upgrades to the Voucher Management (data) System (VMS).

New Vouchers

In most communities, the demand for vouchers exceeds the supply. In some years, Congress has created new vouchers, called incremental vouchers, to serve additional families. In some cases, when new vouchers are created, they are allocated to PHAs via formula. In other cases, they are awarded competitively. Sometimes they are available to the entire population of eligible families; in other cases, they are targeted to specific populations.

In FY2009, Congress provided funding for new vouchers for disabled veterans through the Veterans Affairs Supportive Housing (VASH) program, families involved in the child welfare system through the Family Unification Program (FUP), and non-elderly disabled families. In his FY2010 budget, the President did not request funding for new incremental vouchers. The House-passed version of H.R. 3288 proposed $75 million for new incremental vouchers for disabled veterans through the VASH program. The Senate-passed version of H.R. 3288 proposed $75 million for VASH vouchers and $20 million for FUP vouchers.

The final FY2010 funding law, P.L. 111-117, provided $75 million for VASH vouchers and $15 million for FUP vouchers.

Public Housing Funding, HOPE VI, and Choice Neighborhoods

The public housing program provides publicly owned and subsidized rental units for very low-income families. It was created in 1937 and is the oldest HUD housing assistance program, and arguably, its most well-known program. Although no new public housing developments have been built for many years, Congress continues to provide funds to the more than 3,100 public housing authorities (PHAs) that own and maintain the existing stock of more than 1.2 million units. Through the Operating Fund, HUD provides funds to PHAs to help fill the gap between tenants' contributions toward rent and the cost of ongoing maintenance, utilities, and administration of public housing. Through the Capital Fund, HUD provides funding to PHAs for large capital projects and modernization needs. HOPE VI is a competitive grant program that provides funds to help demolish and/or redevelop severely distressed public housing developments, with a focus on building mixed-income communities.

Table 5. Public Housing, FY2009-FY2010

(in billions of dollars)

Account	FY2009 Enacted	FY2010 Request	FY2010 House	FY2010 Senate	FY2010 Consolidated
Public Housing Capital Fund	2.450	2.244	2.500	2.500	2.500
Public Housing Operating Fund	4.455	4.600	4.800	4.750	4.775
HOPE VI	0.120	0.000	0.250	0.000	0.200
Choice Neighborhoods	0.000	0.250	0.000	0.250	*0.065*

Source: Prepared by CRS on the basis of tables provided by the Appropriations Committee, the FY2010 Omnibus Appropriations Act (P.L. 111-8), HUD Congressional Budget Justifications, the President's FY2010 Budget, and House and Senate versions of H.R. 3288.

Note: Table does not reflect $4 billion in emergency capital funding provided by the FY2009 economic stimulus act.

Operating Fund

PHAs receive operating funding on the basis of a formula that is meant to make up the difference between what it costs to maintain public housing and what PHAs receive in tenant rents. Each year, HUD estimates PHA budgets on the basis of this formula. HUD then compares the amount of funding PHAs are eligible to receive in aggregate to the amount of funding provided by Congress. If the amount provided by Congress is less than PHAs' aggregate budget eligibility, HUD applies an across-the-board reduction to PHAs' allocations. The percentage of eligible funding provided to PHAs after applying the across-the-board reduction is referred to as the proration level. The proration level in any given year is often the largest source of controversy in the debates over public housing funding.

In FY2009, Congress provided $4.455 billion for the Public Housing Operating Fund, which was sufficient to fund an estimated 90% of PHA budget eligibility.[7] In FY2010, President Obama requested just under $4.600 billion, which HUD's Congressional Budget Justifications estimate would result in a proration level of 100%. Several of the PHA industry groups have contended that HUD's estimates are incorrect and that to reach 100% proration, the Operating Fund would need $5.050 billion in FY2010. [8] Both the House-passed and Senate-passed bills would have increased funding above the President's requested level, but not to the level requested by advocates. P.L. 111-117 appropriated the funding level proposed by both the House and Senate.

Community Service Requirement

The public housing program has a requirement that certain non-exempted residents participate in eight hours per month of community service or economic self-sufficiency activities. An amendment added during House floor consideration of H.R. 3288 would have prohibited PHAs from using funding provided in the bill to implement or enforce the community service requirement. If enacted, this provision would have effectively suspended the requirement. An opposing amendment was added during Senate floor consideration of H.R. 3288, stating that nothing in the bill was to be construed as limiting the community service/economic self-sufficiency requirement. The final FY2010 funding bill did not include any provisions related to the community service requirement. For more information, see CRS Report RS21591, *Community Service Requirement for Residents of Public Housing*, by (name redacted).

Capital Fund

President Obama's FY2010 budget requested $2.244 billion for the Capital Fund. Of that amount, $2.199 billion would be available for formula grants. The amount requested is roughly equal to the estimated $2 billion in new capital needs that accrue every year in public housing. In addition to new needs, there is an estimated backlog of roughly $20 billion in unmet capital needs.[9] These estimates of need, however, are more than 10 years old, and the public housing stock has changed significantly during that time, due to demolition and disposition of many units. HUD's Congressional Budget Justifications note that HUD began a Capital Needs Assessment in order to estimate the current capital needs of public housing, but suspended the study at the request of Congress. The Department is currently re-evaluating the study's methodology.

President Obama's FY2010 budget requested $142 million (6%) less than was provided through the regular annual appropriations in FY2009, not counting the additional $4 billion in emergency

[7] See HUD FY2010 Congressional Budget Justifications, p. H-6.

[8] See "Industry Groups Send Letter to Secretary Donovan on HUD's 2010 Operating Fund Budget Shortfall," PHADA Advocate, July 1, 2009 (Vol. 24, No. 11).

[9] Abt Associates, "Capital Needs of the Public Housing Stock in 1998 Formula Capital Study," January 2000.

supplemental capital grants that were also provided in FY2009 through the economic stimulus law (P.L. 111-5). HUD's Congressional Budget Justifications note that because the President requested "full funding" for the Operating Fund, PHAs will have less need to use their capital funding to supplement their operating funding. As a result, the up to 10% of capital funding that PHAs are permitted to use for operating needs will be available for capital needs in FY2010. Also, the Justifications note that PHAs will already have a significant amount of capital funding to spend in FY2010 as a result of the $4 billion in emergency supplemental funding provided by P.L. 111-5.

Both the House- and Senate-passed versions of H.R. 3288 proposed funding the Capital Fund at $2.5 billion, which is above the President's request, and above the FY2009 level. The final FY2010 funding law, P.L. 111-117, funded the capital fund at the level recommended by the House and Senate. Among other set-asides, the final FY2010 funding bill included a set-aside of up to $40 million to be awarded competitively to PHAs to fund early childhood centers or other services for residents. This set-aside was proposed in the Senate-passed version of H.R. 3288.

HOPE VI/Choice Neighborhoods

In each of his budget requests from FY2003-FY2009, President Bush requested no new funding for the HOPE VI public housing revitalization program. In response, each year, Congress continued to fund the program. Up until FY2003, the program was generally funded at just under $600 million; in recent years its funding level has generally been around $100 million. The Bush Administration criticized the program for a slow expenditure of grant funds. They also noted that PHAs are able to use their capital grants to leverage resources in much the same way HOPE VI grants are used to leverage additional resources, making HOPE VI less necessary. Some low-income housing advocates were also critical of the HOPE VI program, arguing it tore down more public housing than it replaced, and frequently permanently displaced needy public housing residents.

Proponents of HOPE VI frequently cite the program's transformative effects on severely distressed communities and PHA groups have argued that HOPE VI is a necessary supplement to regular capital funding.

As noted earlier in this report, President Obama's FY2010 budget requested no new funding for HOPE VI. Instead, the budget requested $250 million for a new Choice Neighborhoods Initiative, modeled after the HOPE VI program, but open to entities besides PHAs, including local governments, nonprofits, and for-profit developers.

The House-passed version of H.R. 3288 and the Senate-passed version of H.R. 3288 took different positions on the Choice Neighborhoods Initiative and HOPE VI. The House bill proposed to continue to fund HOPE VI, whereas the Senate bill proposed to fund the new initiative, but with a set-aside of over half of the funding for PHA-led projects. The final FY2010 funding law, P.L. 111-117, included $200 million for HOPE VI, but of that amount, $65 million was set aside to fund a demonstration of the Choice Neighborhoods Initiative.

Project-Based Renewal Funding

The project-based rental assistance account provides funding to administer and renew existing project-based Section 8 rental assistance contracts between HUD and private landlords. Under those contracts, HUD provides subsidies for units owned by private landlords that allow eligible low-income families to live in the units but pay only 30% of their incomes toward rent. No new contracts have been entered into under this program since the early 1980s. When the program was active, Congress funded the contracts for 20-40 year periods, so the monthly payments for landlords came from old appropriations. However, once those contracts expire, if they are renewed, they require new annual appropriations.

In July 2007, HUD stopped making monthly payments to project-based Section 8 property owners and suspended renewals of expiring contracts. At the time, HUD stated that they lacked sufficient funding to meet the needs of their existing contracts. Department officials stated that the problem arose because HUD's legal counsel had determined that HUD could no longer obligate partial funding when it entered into a 12-month contract renewal with a property owner, which had been the Department's past practice.

The FY2007 funding level had not been sufficient to fund all contract renewals for their full 12 month terms. By late summer, the Office of Management and Budget (OMB) and HUD worked together to identify sufficient funding to resume payments to landlords for the remainder of FY2007 (including retroactive payments) and HUD modified its contracts with property owners to indicate that funding might not be set aside for the full length of the contract. This practice of short-funding contracts was the subject of much concern, particularly that property owners would lose confidence in the program, making them potentially less likely to continue to participate.[10]

The FY2008 funding level was not sufficient to fund all project-based contracts at their full 12-month term. At the time the FY2008 funding bill was enacted, it was estimated that an additional $2 billion would be needed, on top of the regular appropriation, to make up for the shortfall.

In FY2009, the economic stimulus act (P.L. 111-5) provided the $2 billion necessary to make up for the shortfall, and the regular FY2009 appropriations act included sufficient funding ($7 billion in regular FY2009 appropriations; $400 million in an advance for FY2010) to fund all contracts for a full 12 months.

As shown in **Table 6**, President Obama's FY2010 budget requested $8.1 billion in FY2010 funding for project-based contract renewals ($7.7 billion in new appropriations and $400 million from the prior year advance), and asks that Congress provide an addition $400 million in advance appropriations for FY2011. HUD's Congressional Budget Justifications contend that the amount requested will be sufficient to fully fund all contract renewals for 12 months.

The Senate-passed bill proposed funding renewals at the President's requested level. The House bill included over $600 million more than the President's request. The final FY2010 funding law, P.L. 111-117, provided just under $8.6 billion for renewals, which included an advance appropriation of just under $400 million for use in FY2011.

[10] See transcript from "The Impact of Late Housing Assistance Payments on Tenants and Owners in the Project-Based Rental Assistance Program," hearing before the House Financial Services Committee, October 17, 2007.

Table 6. Section 8 Project-Based Rental Assistance Funding

(in billions of dollars)

Section 8 Project-Based Rental Assistance	FY2009 Enacted	FY2010 Request	FY2010 House	FY2010 Senate	FY2010 Conf.
Total, Section 8 Project-Based Rental Assistance (budget authority provided, including ARRA)	**9.500**	**8.100**	**8.700**	**8.100**	**8.551**
Total, Section 8 Project-Based Rental Assistance (budget authority available, including ARRA)	**9.100**	**8.100**	**8.706**	**8.100**	**8.557**
Regular Annual Appropriations	7.100	7.700	8.306	7.700	8.157
ARRA Funding	2.000	0.000	0.000	0.000	0.000
Advance Appropriation provided for next FY	0.400	0.400	0.394	0.400	0.394
Advance Appropriation available for current FY	0.000	0.400	0.400	0.400	0.400

Source: Prepared by CRS on the basis of tables provided by the Appropriations Committee, the FY2010 Omnibus Appropriations Act (P.L. 111-8), HUD Congressional Budget Justifications, the President's FY2010 Budget, and House and Senate versions of H.R. 3288.

Housing Programs for the Elderly and Persons with Disabilities

Formerly known together as Housing for Special Populations, the Section 202 Supportive Housing for the Elderly program (12 U.S.C. §1701q) and the Section 811 Supportive Housing for Persons with Disabilities program (42 U.S.C. §8013) provide capital grants and ongoing project rental assistance contracts (PRAC) to developers of new subsidized housing for these populations. In addition, the Section 811 program provides vouchers for tenants with disabilities to use in the private housing market, referred to as "mainstream vouchers." The Housing for the Elderly appropriation includes funds for the Service Coordinator program and the Assisted Living Conversion program. (For more information about Section 202, see CRS Report RL33508, *Section 202 and Other HUD Rental Housing Programs for Low-Income Elderly Residents*, by (name redacted), and for more information about Section 811, see CRS Report RL34728, *Section 811 and Other HUD Housing Programs for Persons with Disabilities*, by (name redacted)).

Table 7. Housing for the Elderly and Persons with Disabilities, FY2009-FY2010

(in millions of dollars)

	FY2009 Omnibus	FY2010 Request	FY2010 House	FY2010 Senate	FY2010 Consolidated
Total Housing for the Elderly	**765**	**765**	**1,000**	**785**	**825**
Housing for the Elderly	**NA**[a]	**522**	**NA**[b]	**NA**[b]	**NA**[b]
New Section 202 Capital Grants and PRAC	[c]	522	[d]	[e]	[f]
Pre-development Grants	20	0	20	20	20
Working Capital Fund	2	[g]	[h]	[h]	[h]
Technical Assistance to Improve Grant Applications	2	0	2	0	0

	FY2009 Omnibus	FY2010 Request	FY2010 House	FY2010 Senate	FY2010 Consolidated
Housing for the Elderly Contract Renewals and Amendments	**NA**[a]	**243**	**NA**[b]	**NA**[b]	**NA**[b]
PRAC Renewals and Amendments	[c]	128	[d]	[e]	[f]
Service Coordinators	90	90	90	90	90
Grants for Conversion to Assisted Living	25	25	25	25	40
Total Housing for Persons with Disabilities	**250**	**250**	**350**	**265**	**300**
Housing for Persons with Disabilities	**NA**[i]	**114**	**NA**[b]	**NA**[b]	**NA**[b]
New Capital Grants and PRAC	[c]	114	[j]	[k]	[lh]
New Mainstream Vouchers	0	0	0	0	0
Working Capital Fund	2	[g]	[h]	[h]	[h]
Housing for Persons with Disabilities Contract Renewals and Amendments	**NA**[i]	**136**	**NA**[b]	**NA**[b]	**NA**[b]
PRAC Renewal and Amendments	[c]	49	[j]	[k]	[l]
Mainstream Voucher Renewal	87	87	87	87	87

Source: Prepared by CRS on the basis of tables provided by the Appropriations Committee, the FY2009 Omnibus Appropriations Act (P.L. 111-8), HUD Congressional Budget Justifications, the President's FY2010 Budget, House and Senate versions of H.R. 3288, and P.L. 111-117.

a. In FY2009, there was only one Housing for the Elderly account, and not a separate account for contract renewals and supportive services as proposed in the President's FY2010 budget.

b. Neither the House-passed version of H.R. 3288, the Senate-passed version, nor P.L. 111-117 followed the President's proposal to create separate Housing for the Elderly and contract renewals and supportive services accounts or separate Housing for Persons with Disabilities and contract renewals accounts.

c. Amounts not specified.

d. The House–passed version of H.R. 3288 would have provided a total of $872 million for Section 202 "capital advance and project-based rental assistance awards," but did not indicate if this amount included renewals of existing contracts.

e. The Senate-passed version of H.R. 3288 would have provided a total of $542 million for Section 202 "capital advance and project-based rental assistance awards," but did not indicate if this amount included renewals of existing contracts.

f. P.L. 111-117 provides $582 million for "capital advance and project-based rental assistance awards," but does not indicate if this amount includes renewals of existing contracts.

g. According to HUD Budget Justifications, the Department is planning to consolidate funds for the Working Capital Fund into one HUD account as part of its "Transformation Initiative." For more information, see the section of this report entitled "Transformation Initiative."

h. The House and Senate versions of H.R. 3288, as well as P.L. 111-117, permit to the Secretary the transfer authority (up to 1%) requested under the Transformation Initiative.

i. In FY2009, there was only one Housing for Persons with Disabilities account, and no separate account for contract renewals as proposed in the President's FY2010 budget.

j. The House-passed version of H.R. 3288 would have provided a total of $214 million for Section 811 "capital advances and project-based rental assistance contracts," but did not specify whether this included renewals of existing contracts.

k. The Senate-passed version of H.R. 3288 would have provided a total of $129 million for Section 811 "capital advances and project-based rental assistance contracts," but did not specify whether this included renewals of existing contracts.

l. P.L. 111-117 provides $186 million for "capital advances and project-based rental assistance contracts," but does not specify whether this includes renewals of existing contracts.

For FY2010, the President proposed to fund Section 202 and its associated programs and Section 811 at the same levels as FY2009—$765 million and $250 million, respectively. Although funding levels for Section 202 and Section 811 would not have changed in FY2010 under the President's proposal, the account structure for the programs would have been different. (See **Table 7**.) The budget proposal would have divided both Housing for the Elderly and Housing for Persons with Disabilities into two separate accounts apiece. In each case, the first account would have funded new capital grants and project rental assistance contracts while the second account would have funded renewals of existing rental assistance payments—in the case of Section 811, this second account would also have included renewals of mainstream vouchers while the second account under Section 202 would have funded Service Coordinators and the Assisted Living Conversion Program. However, Congress did not adopt the President's proposed account structure in the FY2010 Consolidated Appropriations Act (P.L. 111-117). See **Table 7** for the FY2010 funding levels enacted in P.L. 111-117.

Community and Economic Development Programs

Community Development Fund/Community Development Block Grants

The Community Development Fund (CDF) account supports activities undertaken through the Community Development Block Grant (CDBG) program. In addition, the CDF has funded other community development-related programs in past years, including the Economic Development Initiatives (EDI) and Neighborhood Initiative (NI) programs.

The Community Development Block Grant (CDBG) program, which was first authorized under Title I of the Housing and Community Development Act of 1974 (P.L. 93-383, 42 U.S.C. 5301 *et seq.*) is the largest source of federal financial assistance in support of state and local neighborhood revitalization, housing rehabilitation, and economic development activities. Funds are allocated by formula to approximately 1,170 entitlement communities, the 50 states, and Puerto Rico to be used to fund eligible activities that meet one of three national objectives: principally benefit low- and moderate-income persons, aid in eliminating or preventing slums or blight, or address an imminent threat to the health and safety of the public.

For FY2010, the Administration's budget requested increased funding for and a revamping of the CDBG program. The Administration budget request proposed a $550 million increase in total

CDF appropriations, including a request to "fully fund" the CDBG program. Excluding $1 billion in FY2009 CDBG stimulus funding[11], the Administration's budget request would have increased funding for the formula-based portion of the CDBG program by 14%. In addition, the budget request included $150 million to fund the Administration's proposed Sustainable Communities Initiatives, and $50 million to support activities previously funded under other HUD accounts—specifically, the Rural Innovation Fund (currently known as the Rural Housing and Economic Development Program), and the University Communities Fund, previously funded under a different account. For a review of the Administration's budget request and House, Senate, and conference action, see **Table 8**.

Table 8. CDBG and Related Appropriations: FY2009 and FY2010

(in millions of dollars)

Program	FY2009	FY2010 Request	FY2010 House	FY2010 Senate	FY2010 Consolidated
CDF	3,900	4,450	4,599	4,450	4,450
CDBG formula	3,642[a]	4,185	4,167	3,992	3,990
Entitlement communities	*2,549*	*2,930*	*2,917*	*2,794*	*2,793*
States	*1,093*	*1,255*	*1,250*	*1,198*	*1,197*
Native Amer. Housing & Econ. Dev.	65	65	65	65	65
Sustainable Communities	0	150	150	150	150
Regional Integrated Planning Grants	*0*	*100*	*100*	*100*	*100*
Community Challenge Planning Grants	*0*	*40*	*40*	*40*	*40*
HUD-DOT Integration Research	*0*	*10*	*10*	*10*	*10*
Rural Innovation Fund[b]	0	25	25	25	25
Univ. Comm. Fund	[c]	25	25	25	25
Economic Dev. Initiative	165	0	151	171	173
Neighborhood Initiative	20	0	16	22	22
Technical Assistance	5	[d]	[d]	[d]	[d]
Working Capital	3	[d]	[d]	[d]	[d]
ARRA NSP 2[e]	2,000	0	0	0	0
ARRA CDBG	1,000	0	0	0	0

Source: Prepared by CRS on the basis of tables provided by the Appropriations Committee, the FY2010 Omnibus Appropriations Act (P.L. 111-8), HUD Congressional Budget Justifications, the President's FY2010 Budget, and House and Senate versions of H.R. 3288.

a. The CDBG total does not reflect the $3 billion in emergency funding provided to HUD by the American Recovery and Reinvestment Act of 2009 (P.L. 111-5), including $1 billion for formula grants and $2 billion for the Neighborhood Stabilization Program (NSP). The additional $1 billion for CDBG formula funds was to be allocated by entitlement communities and states to projects that could commence within 120 days of

[11] The American Recovery and Reinvestment Act of 2009, P.L. 111-5, included an additional $1 billion in CDBG funding for FY2009 to be distributed based on the current formula to all eligible entitlement communities and states. The act also included an additional $2 billion for the Neighborhood Stabilization Program, to be awarded competitively to states, local governments, and nonprofit organizations.

enactment of the legislation. Unlike the regular CDBG program and NSP-1 as enacted by the Housing and Economic Recovery Act of 2008, NSP-2 funds under ARRA are being awarded competitively and include direct assistance to nonprofits.

b. Previously funded under a separate account, Rural Housing and Economic Development

c. For FY2009, program funds of $23 million were appropriated under a separate HUD account, Research and Technology. Prior to FY2007, CDBG-linked university activities were included in this account.

d. Technical Assistance and Working Capital activities would be consolidated and funded under a proposed Transformation Initiative within HUD's Office of Policy Development and Research.

e. For additional information on the Neighborhood Stabilization Program, see CRS Report RS22919, *Community Development Block Grants: Neighborhood Stabilization Program; Assistance to Communities Affected by Foreclosures* , by (name redacted) and (name redacted).

Although no formal legislative proposal has been introduced, the Administration budget noted that HUD will be seeking legislative changes to the program's current dual formula allocation. According to HUD's congressional budget justification document, the Department believes that the current dual formula does not adequately measure community development need. In addition, the Administration plans to include a hold harmless provision that would establish a transitional period for entitlement communities adversely affected by the formula change. This would enable them to prepare for reduced funding should appropriations drop below $4 billion.

The House-passed version of H.R. 3288, the THUD Appropriations Act of FY2010, included $4.599 billion for CDF activities, including $4.167 billion for formula-based CDBG funds to state and local governments. The House-passed version of H.R. 3288 recommended $149 million more in CDF appropriations and $18 million less in CDBG formula-based funding than that requested by the Administration. The difference in the amount requested by the Administration and that recommended by the House would have been used to fund congressionally designated special projects (earmarks) under both the EDI ($151 million) and NI ($16 million) subaccounts. The Senate-passed version took a similar tack, recommending an amount for CDBG formula-based funding that is $193 million less than requested by the Administration in order to fund the EDI and NI subaccounts.

The final version of the act, P.L. 111-117, closely followed the recommendations included in the Senate version of H.R. 3288. It appropriated $4.450 billion for CDF activities, including $3.990 billion for formula-based grants to states and local governments. Although the Administration requested no funds for the EDA and NI programs, Congress appropriated $195 million less than the amount requested by the Administration for CDBG formula grants in order to fund EDI and NI activities.

In addition, consistent with the House-passed and Senate passed versions of H.R. 3288, P.L. 111-117 includes $150 million in funding for the Administration's new multipronged Sustainable Communities Initiative (SCI). SCI appropriations will be used to fund the program's three components, which include

- *Regional Integrated Planning Grants*. $100 million would be competitively awarded to regional organizations in metropolitan areas to support efforts to develop effective models that would integrate the planning requirements of various disciplines critical to the development of sustainable communities. This would be done in collaboration with the Department of Transportation, the Environmental Protection Agency , and other federal agencies. It is anticipated that the average grant award would be $4 million and would be used to focus on improvements in and coordination of metropolitan-wide housing, transportation, energy, and land use planning activities.

- *Community Challenge Grants*. $40 million would be competitively awarded to communities to reform existing building codes and zoning ordinances with the goal of promoting sustainable growth and discouraging inefficient land use patterns. HUD has proposed that the grant awards not exceed $2 million.
- *Housing-Transportation Integration Research*. $10 million would be used to fund a joint HUD-Department of Transportation research initiative that would seek to quantify and evaluate the benefits and tradeoffs of various efforts. A portion of these funds ($2 million) would be use to evaluate the long-term benefits of Regional Integrated Planning Grants and Community Challenge Grants.

P.L. 111-117 includes language that directs the Secretary of HUD, in coordination with the Secretary of Transportation, to submit a plan to the congressional committees of jurisdiction (House and Senate Appropriations Committees, House Committee on Financial Services, and Senate Committee on Banking and Urban Affairs) detailing selection criteria and performance evaluation measures to be used in the administration of grant funds. It should be noted that, as proposed by the Administration, these three initiatives were to be administered through a new Office of Sustainability within HUD. At least one bill has been introduced that would provide the statutory authority to implement the new initiative. On August 6, 2009, Senator Christopher Dodd, Chairman of the Senate Banking, Housing, and Urban Affairs Committee, introduced S. 1619, the Livable Communities Act. S. 1619 would establish the Office of Sustainable Housing and Communities within HUD, and an Interagency Council on Sustainable Communities comprising representatives from HUD, the Department of Transportation, the Environmental Protection Agency, and other agencies designated by the President. The bill would also create two new programs whose missions are similar to the programs outlined by the President—comprehensive planning grants and sustainability challenge grants.

Section 108 Loan Guarantees

The Section 108 loan guarantee program allows states and entitlement communities to leverage their annual CDBG allocation in order to help finance brownfield redevelopment activities. CDBG entitlement communities and states are allowed to borrow, for a term of up to 20 years, an amount equal to as much as five times their annual CDBG allocation for qualifying activities. As security against default, states and entitlement communities must pledge their current and future CDBG allocations. The Obama Administration's budget proposed revamping the program by eliminating the credit subsidy[12] and instead charging a fee-based assessment to borrowers accessing the program.

[12] A credit subsidy is the estimated long-term cost to the federal government of a direct loan or loan guarantee. For loan guarantees, the subsidy cost is the net present value of estimated payments by the government to cover defaults and delinquencies, interest subsidies, or other payments, offset by any payments to the government, including origination and other fees, penalties, and recoveries.

Table 9. Section 108 Loan Guarantees

(in millions of dollars)

Program	FY2009	2010 Request	FY2010 House	FY2010 Senate	FY2010 Consolidated
Loan Guarantee Commitment Level	*275*	*275*	*275*	*275*	*275*
Loan subsidy	6	0	6	0[a]	6

Source: Prepared by CRS on the basis of tables provided by the Appropriations Committee, the FY2010 Omnibus Appropriations Act (P.L. 111-8), HUD Congressional Budget Justifications, the President's FY2010 Budget, and House and Senate versions of H.R. 3288.

a. Credit subsidy would be eliminated in exchange for a new fee-based assessment.

The Administration sought this change as a cost saving measure. It noted that there had not been a single default since the program's inception in 1974. The House-passed measure proposed maintaining the program's present structure while the Senate-passed version of H.R. 3288 supported the Administration's proposal. P.L. 111-117 included the House-approved provisions, maintaining the program's present structure.

Brownfield Economic Development Initiative (BEDI)

The Brownfield Economic Development Initiative (BEDI) program is a competitive grant program that provides funds to assist communities with the redevelopment of abandoned, idled, and underused industrial and commercial facilities where expansion and redevelopment are burdened by real or potential environmental contamination. The funds are used in support of CDBG Section 108 loan guarantees and may be used in collaboration with brownfield-related funding by the Environmental Protection Agency.

Table 10. Brownfield Economic Development Initiative

(in millions of dollars)

Program	FY2009	FY2010 Request	FY2010 House	FY2010 Senate	FY2010 Consolidated
Brownfield Econ. Dev. Initiative	10	0	25	0	18

Source: Prepared by CRS on the basis of tables provided by the Appropriations Committee, the FY2010 Omnibus Appropriations Act (P.L. 111-8), HUD Congressional Budget Justifications, the President's FY2010 Budget, and House and Senate versions of H.R. 3288.

The Administration proposed eliminating the separate appropriation for the program for FY2010, but noted that program activities could continue to be funded under the larger CDBG program. The Senate-passed version of H.R. 3288 included no funding for the program. However, the House-passed version of the bill proposed appropriating $25 million for BEDI activities, returning the program to its pre-FY2007 funding level. P.L. 111-117 appropriates $17.5 million for BEDI activities.

Self-Help and Assisted Homeownership Account

This account funds the Self-Help Homeownership Opportunity Program (SHOP) program and two other set-asides. Through the SHOP program, HUD provides grants to national and regional organizations and consortia that have experience in providing or facilitating self-help homeownership opportunities. Prospective homebuyers with the assistance of volunteers provide "sweat equity" by contributing labor toward the construction of their homes. In addition, the account funds the Capacity Building for Community Development and Affordable Housing Program (capacity building) and the Housing Assistance Council (HAC). The capacity building program provides technical assistance and funds to local housing and community development organizations through selected national intermediaries. HAC activities are intended to address the housing needs of the rural poor. It supports local organization involved in developing housing and homeownership opportunities in rural America through the provision of loans, research, and technical assistance.

Table 11. Self-Help and Assisted Homeownership Opportunity Programs

(in millions of dollars)

Program	FY2009	FY2010 Request	FY2010 House	FY2010 Senate	FY2010 Consolidated
Self-Help and Assisted Homeownership	**64**[a]	**77**	**85**	**85**	**82**
SHOP	27	27	27	27	27
Sec. 4(a) Capacity Building	34	50	53[a]	50	50
Housing Assistance Council	4	0	5	8	5

Source: Prepared by CRS on the basis of tables provided by the Appropriations Committee, the FY2010 Omnibus Appropriations Act (P.L. 111-8), HUD Congressional Budget Justifications, the President's FY2010 Budget, and House and Senate versions of H.R. 3288.

a. Total may not add due to rounding.

The Administration's budget request would have increased overall funding for this account by 20%, to $77 million, with all of the proposed increase targeted to the capacity building program. In addition, the Administration's budget request would have expanded the number of the Sec. 4(a) national intermediaries eligible to receive assistance from three to five, including the Local Initiative Support Corporation (LISC), the Enterprise Fund, Habitat for Humanity, YouthBuild USA, and Living Cities/National Community Development Initiative. The Administration's budget did not recommend funding for the HAC.

The House-passed bill would have increased funding for capacity building activities authorized under Sec. 4 of the HUD Demonstration Act of 1993 to $53 million. This is $3 million more than requested by the Administration. The House-passed bill would have limited such grants to LISC, the Enterprise Fund, and Habitat for Humanity. The Senate version of the bill also would have limited appropriations to LISC, the Enterprise Fund, and Habitat for Humanity. It supported the Administration's $50 million request. Unlike the Administration, which requested no new funding for the Housing Assistance Council (HAC), the House bill recommended an appropriation of $5 million for the program while the Senate version of H.R. 3288 recommended $8 million for HAC activities.

P.L. 111-117 includes $82 million for Self-Help and Assisted Homeownership Opportunities Programs. This is $5 million more than recommended by the Administration; the appropriation includes $27 million for the SHOP program and $50 million for Section 4(a) capacity building grants. Consistent with language included in the House and Senate versions of H.R. 3288, capacity building funds would be limited to LISC, the Enterprise Fund, and Habitat for Humanity. Unlike the Administration's budget request, P.L. 111-117 also includes $5 million for HAC activities.

Housing Counseling Assistance

In part due to a continuing rise in mortgage delinquency and foreclosure rates, lawmakers have shown an increased interest in housing counseling. Housing counseling can take many forms, including pre-purchase counseling, foreclosure mitigation counseling, and counseling for seniors seeking reverse mortgages. No federal government agency provides housing counseling directly, but the government does provide some financial support to private housing counseling agencies.

Since the late 1970s, Congress has appropriated funding to HUD for the agency to distribute through competitive grants to housing counseling agencies that have been approved by HUD. This funding can generally be used to provide many different types of housing counseling.

In recent years, Congress also appropriated funding specifically for foreclosure mitigation counseling, but instead of providing the funding to HUD, Congress provided the funding to the Neighborhood Reinvestment Corporation, an independent, federally-chartered non-profit agency that is commonly known as NeighborWorks America. NeighborWorks is not funded as part of the HUD budget; it receives its own appropriation as a related agency in the HUD funding bill. NeighborWorks has distributed the foreclosure mitigation funding it has received to eligible housing counseling organizations through a new National Foreclosure Mitigation Counseling Program (NFMCP).

HUD received an appropriation of up to $50 million to use for housing counseling in the FY2008 appropriations act, and an appropriation of $65 million in the FY2009 appropriations act. The NFMCP received an initial appropriation of $180 million in the FY2008 appropriations act, along with an additional $180 million in the Housing and Economic Recovery Act of 2008 (P.L. 110-289). In the FY2009 appropriations act, the NFMCP received an appropriation of $50 million.

For FY2010, the President's budget proposed $100 million in funding for HUD housing counseling, a $35 million increase over the $65 million appropriated in FY2009. It also proposed $33.8 million in funding for the NFMCP.

The House Committee-passed version of H.R. 3288 contained the same total amount of funding for housing counseling activities as the President's budget, but it distributed that funding differently between HUD and the NFMCP. The House Committee-passed bill provided $70 million in funding for HUD's housing counseling program, a $5 million increase over the FY2009 appropriation but $30 million less than the President's budget request. The House Committee-passed bill also provided $63.8 million for the NFMCP, a $30 million increase over the President's budget request. The House Committee report praised NeighborWorks's efforts with the NFMCP, and encouraged HUD to focus on funding pre-purchase counseling while NeighborWorks continues to administer funding for foreclosure mitigation counseling. The report also expressed concern that HUD housing counseling funding is not being spent quickly enough.

A floor amendment passed by the full House increased the amount of funding for HUD housing counseling assistance by $5 million, which was transferred from the HOME Investment

Partnerships Program account. The final House-passed version of H.R. 3288 therefore included $75 million for HUD housing counseling and $63.8 million for NeighborWorks.

The Senate-passed version of H.R. 3288 included a total of $165 million for housing counseling, a higher amount than either the House-passed bill or the President's budget request. The Senate-passed bill included $100 million for HUD housing counseling assistance, the same amount requested in the President's budget and $30 million more than the House bill. At least $15 million of this amount would be specifically targeted to HUD-approved housing counseling agencies in the 100 metropolitan statistical areas with the highest foreclosure rates. The Senate-passed bill also included $65 million for the NFMCP. This is $31.2 million more than the President's request and $1.2 million more than the House bill. The Senate report urged HUD and NeighborWorks to work together to ensure that housing counseling is provided to those who need it.

P.L. 111-117, the final FY2010 funding law, included $87.5 million for HUD's housing counseling program. HUD is directed to award at least $13.5 million of that amount to housing counseling agencies operating in the 100 metropolitan statistical areas with the highest foreclosure rates in order to assist homeowners in pursuing mortgage modifications and avoiding mortgage scams. P.L. 111-117 also included $65 million for NeighborWorks to use for the NFMCP.

ACORN Amendment

During Senate floor consideration of H.R. 3288, an amendment was added prohibiting any funding provided in the bill from being provided to the Association of Community Organizations for Reform Now (ACORN) or its affiliates. ACORN Housing Corporation, an allied organization of the national ACORN organization, is a HUD-approved housing counseling intermediary. As such, it has received HUD housing counseling funding as well as NeighborWorks National Foreclosure Mitigation Counseling Program (NFMCP) funding in the past.[13] In addition, some of ACORN Housing Corporation's local affiliates may be HUD-approved local housing counseling agencies and may have received housing counseling funds as well. If this amendment is retained in conference, it appears[14] that ACORN Housing Incorporated and its affiliates would not be eligible for any of the HUD Housing Counseling or NeighborWorks NFMCP funding provided in this bill. The Senate's ACORN language was included in the enacted version of the bill, P.L. 111-117 (Sec. 418).

FHA and Ginnie Mae Subsidy Rates

FHA (including HECM)

The Federal Housing Administration (FHA) insures mortgage loans made by private lenders to eligible borrowers. The provisions of the Federal Credit Reform Act of 1990 (FCRA)[15] became

[13] Based on CRS searches of http://www.USASpending.gov, a government website that tracks federal funding. ACORN Housing, Inc., has also received funding from HUD's Fair Housing programs in the past.

[14] We qualify this statement only because ACORN National refers to ACORN Housing, Inc., as an "allied" organization, whereas the amendment references ACORN's "affiliates." Presumably, ACORN Housing, Inc., will be considered an ACORN affiliate.

[15] Title V of P.L. 101-508.

effective for the FY1992 Budget. These provisions provide that the cost of federal loan insurance in a given fiscal year is the net present value of all expected cash flows from loans insured in that year. For FHA, the cash inflows are mainly the insurance premiums paid by borrowers, and the cash outflows are mainly the payments to lenders for the cost of loan defaults.

The net value of these cash flows is expressed as a percentage of the volume of insured loans and is referred to as the subsidy rate. If the cash inflows exceed the cash outflows, the subsidy rate is expressed as a negative number because net income from business type activities is shown in the budget as negative outlays. If the cash outflows exceed the cash inflows, the subsidy rate is expressed as a positive number. When the subsidy rate is applied to the expected loan volume, the result is the amount of credit subsidy that a federal credit program needs over the life of the loans. The budget rules require an appropriation of this credit subsidy in the budget year that the loans are disbursed. But actual cash flows over the life of the loans are likely to differ from those projected in the first year. So, agencies are required to periodically revise the initial subsidy estimates to include actual experience on the loans.

If the original subsidy estimates are unbiased, it would be expected that the adjustments in the subsidy rates would be up in some years and down in some years, and over time the changes in both directions would be about equal. In the FHA program, however, re-estimates have generally resulted in higher subsidy costs. It suggests that FHA has been overestimating program income, underestimating program costs, or both.

The FHA home loan insurance programs are administered through two program accounts: the Mutual Mortgage Insurance/Cooperative Management Housing Insurance fund account (MMI/CMHI) and the General Insurance/Special Risk Insurance fund account (GI/SRI). The MMI/CMHI fund provides insurance for home mortgages. The GI/SRI fund provides insurance for more risky home mortgages, for multifamily rental housing, and for an assortment of special-purpose loans such as hospitals and nursing homes. (For more information, see CRS Report RS20530, *FHA-Insured Home Loans: An Overview*, by (name redacted) and (name redacted).)

Historically, the MMI fund has had a negative subsidy rate, which means that it generated negative credit subsidy that could be used to offset the credit subsidy needs of other programs.

In recent years, FHA has experienced adverse loan performance due to a number of reasons. As a result of this loan performance, the FY2009 HUD budget submission noted that the MMI fund has a positive credit subsidy rate and would require appropriations of credit subsidy budget authority to continue operation. The Budget did not request a credit subsidy appropriation and assumed that it would use its existing authorities to increase the insurance premiums to borrowers, and thereby avoid the need for credit subsidy appropriations. The collapse of the subprime mortgage market has resulted in an increase in applications for FHA-insured loans. For the FY2010 Budget, HUD estimates that the MMI fund has returned to a negative subsidy rate of 0.57%, which would produce $1.7 billion in negative credit subsidy.

The Housing and Economic Recovery Act of 2008, P.L. 110-289, moved the Home Equity Conversion Mortgage (HECM) program into the MMI fund, and it is separately accounted. In prior years, the HECM program was estimated to produce a negative credit subsidy. When HUD re-estimated the subsidy rates for FY2010, the subsidy rate for the HECM program was estimated as positive, because the present housing market has resulted in lower than expected appreciation rates for homes. For FY2010, the Administration estimated that the HECM program would have a positive subsidy rate of 2.66% and would need appropriations of $798 million in credit subsidy.

Under the assumptions in the President's budget, the net credit subsidy for the MMI fund in FY2010 would be -$902 million, meaning that the MMI fund would provide income to the government.

The Congressional Budget Office, however, assumes in its re-estimate of the President's budget that the MMI would not produce any negative credit subsidy. Under CBO's assumptions, which are used by Congress, due to large negative credit subsidy needed for the HECM program, the MMI fund would need a net positive credit subsidy appropriation in FY2010.

Both the House-passed and Senate-passed versions of H.R. 3288 would have required HUD to make changes to the HECM program to minimize the amount of positive credit subsidy required in the MMI fund.

Under H.R. 3288, as passed by the House, HUD would have been directed to adjust the factors used to calculate the principal limit for HECMs[16] such that the program operates at a net zero subsidy rate. The House bill also expected HUD to implement the changes to the HECM program recommended by the Government Accountability Office (GAO) in its recent report.[17] The net effect of the requirements in the House bill is that the MMI fund would not have needed the $798 million in credit subsidy for HECMs assumed by the President's budget.

Under the Senate version of H.R. 3288, HUD would have been directed to reduce by 5% the factors used to calculate the principal limits for HECMs. As a result, the positive subsidy requirement for HECMs would be $288 million under the Senate-passed bill, compared to $0 under the House bill, and $798 million under the President's budget.

The continuing resolution, P.L. 111-68, adopted the House language and directed HUD to calculate these factors such that the HECM program operates at a net zero subsidy rate for the duration of the CR. Similarly, P.L. 111-117 adopted the House language directing HUD to calculate the principle limit factors such that the program operates at a net zero subsidy rate. In September 2009, HUD announced the new principle limit factors.[18] In addition, P.L. 111-68 authorized FHA to insure loans under the Mutual Mortgage Insurance fund (MMIF) for up to $1.5 billion multiplied by the number of days covered by the resolution. P.L. 111-117 authorized the MMIF to insure up to $400 billion in loans during FY2010.

For FHA-insured mortgages during CY2010, the continuing resolution enacted in P.L. 111-88 provided that, except for HECMs, the FHA loan limit for an area may not be less than the limit in effect under the Economic Stimulus Act of 2008.[19] The higher loan limits provided under the Economic Stimulus Act of 2008 were slated to expire at the end of CY2009. This permits FHA loan limits of up to $729,750 for one-family homes. The resolution limited HECMs to $625,500.

[16] Given the interest rate and the age of the prospective borrower, HUD calculates factors which, when multiplied by the appraised value of the property, give the so-called "principal limit" or maximum HECM that initially may be obtained by the borrower.

[17] U.S. Government Accountability Office, *Reverse Mortgages: Product Complexity and Consumer Protection Issues Underscore Need for Improved Counseling for Borrowers*, GAO-09-606, June 29, 2009.

[18] U.S. Department of Housing and Urban Development, *Home Equity Conversion Mortgage (HECM)- Principal Limit Factors*, Mortgagee Letter 2009-34, Washington, DC, September 23, 2009.

[19] P.L. 110-185

Report to Congress on Cost of HUD-Held Homes

An amendment added during Senate floor consideration of H.R. 3288 would require HUD to issue a report regarding the number of homes owned by the Department and the budget impact of acquiring, maintaining, and selling such homes. HUD "owns" homes after FHA-insured borrowers are foreclosed upon. After foreclosure, HUD makes an insurance payment to the lender and takes title of the home until such time as the home can be resold. The rate of foreclosure has increased in recent years among FHA-insured homes, as it has risen throughout the housing market, and, as a result, the number of homes HUD "owns" has increased. This language was retained in the final version of the bill, P.L. 111-117.

Ginnie Mae

The Government National Mortgage Association (Ginnie Mae) is the agency of HUD that guarantees the timely payment of principal and interest on securities backing mortgages insured by FHA and other government agencies. Increases in FHA activity results in an increase in Ginnie Mae activity, since Ginnie Mae backs nearly 97% of FHA-insured mortgages. The FY2010 President's budget is requesting a $500 billion limit on mortgage backed securities by Ginnie Mae, a significant increase when compared to the $300 billion requested for FY2009. The budget assumes that Ginnie Mae will carry over uncommitted loan guarantee limitation from prior years, so only $300 billion of the new commitment limit will be used in FY2010, the same as for FY2009. The subsidy rate for FY2009 was estimated at -0.21% and produced a negative subsidy of $630 million. For FY2010 the subsidy rate has been estimated at -0.24%, which results in a negative credit subsidy of $720 million.

The continuing resolution, P.L. 111-68, authorized Ginnie Mae to guarantee loan commitments up to $2.5 billion multiplied by the number of days covered by the resolution. The final appropriations law, P.L. 111-117, authorized Ginnie Mae to guarantee $500 billion in commitments in FY2010.

Appendix. Related Legislation

Jobs for Main Street Act

On December 16, 2009, the House of Representatives passed a substitute amendment to H.R. 2847. Division A, the Jobs for Main Street Act of 2009, redirects over $150 billion in unspent Troubled Asset Relief Program (TARP) funds for a combination of infrastructure and job-creation related investments as well as unemployment and health insurance expansions.

As a part of the infrastructure funding, the bill would provide over $1 billion to HUD to capitalize the National Affordable Housing Trust Fund. (For more information, see CRS Report R40781, *The Housing Trust Fund: Background and Issues*, by (name redacted).) It would also provide HUD with $1 billion for competitive grants through the Public Housing Capital Fund.

The Senate has not yet taken action on the Jobs for Main Street Act of 2009.

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