Congressional Research Service

Department of Housing and Urban Development (HUD): FY2012 Appropriations

Maggie McCarty, Coordinator
Specialist in Housing Policy

Libby Perl
Specialist in Housing Policy

Eugene Boyd
Analyst in Federalism and Economic Development Policy

Katie Jones
Analyst in Housing Policy

Bruce E. Foote
Analyst in Housing Policy

November 2, 2011

Congressional Research Service
7-5700
www.crs.gov
R41700

CRS Report for Congress
Prepared for Members and Committees of Congress

c11173008

Summary

The President's FY2012 budget was released on February 14, 2011. It included a request for nearly $47.8 billion in *gross* new appropriations for HUD in FY2012. After accounting for rescissions of prior-year unobligated balances and offsets available from the Federal Housing Administration (FHA) mortgage insurance programs, the President's request for *net* new budget authority for HUD in FY2012 totals just over $41.7 billion. The President's budget, which was released prior to enactment of a final FY2011 appropriations law, included proposals for some funding increases relative to FY2010 (Section 8 Tenant-Based Rental Assistance and Project-Based Rental Assistance), and some funding decreases relative to FY2010 (public housing operating fund, Community Development Block Grant program, HOME, and Section 202 and 811). However, in the case of almost all of the programs proposed for funding decreases relative to FY2010, the President's requested amount was higher than what was provided in the FY2011 appropriations law. In total, the President's funding request for HUD would result in a nearly $2.5 billion increase in gross new appropriations in FY2012 relative to FY2011. However, because the President's budget estimates a substantial increase (nearly $2 billion) in the amount of offsetting receipts available from the Federal Housing Administration (FHA) in FY2012 relative to FY2011, the net budget authority requested in the President's budget would represent an increase of only about $600 million in FY2012 relative to FY2011.

While the House Appropriations Committee has not formally reported an FY2012 Transportation, HUD, and Related Agencies (THUD) bill, on September 7, 2011, the THUD subcommittee released a draft version, including, according to the committee's press statements, about $3 billion less for HUD than was provided in FY2011. It was approved by the subcommittee the next day. On September 21, 2011, the Senate Appropriations Committee reported its FY2012 THUD funding bill (S. 1596). It includes about $1.3 billion less in regular appropriations for HUD than was provided in FY2011.

On November 1, 2011, the Senate approved S.Amdt. 738 to H.R. 2112, the so-called Senate "Minibus." It includes FY2011 appropriations for those agencies under the jurisdiction of the THUD subcommittee (reflecting S. 1596) as well as two other subcommittees (Agriculture and Commerce-Justice-Science). Several HUD-related amendments were considered and adopted.

Since final FY2012 appropriations were not enacted before the end of FY2011, Congress has enacted a series of continuing resolutions to maintain funding for government activities. The current CR, P.L. 112-36, funds most accounts, including all of HUD's accounts, through November 18, 2011, at FY2011 levels, reduced by 1.503%.

While not directly affecting HUD funding, the provisions in the Budget Control Act of 2011 (P.L. 112-25) relating to statutory discretionary budget caps and their enforcement through sequestration could have implications for the amount of funding available for HUD in FY2012 (see the **Appendix** for more information).

Contents

Figures

Tables

Appendixes

Contacts

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 (about three-quarters of total funding in FY2010). 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 home buyers with low downpayments 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 hurricanes of 2005. The economic stimulus legislation enacted in 2009 (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, FY2007-FY2011

(net budget authority in billions of dollars)

FY2007	FY2008	FY2009	FY2010	FY2011 (est.)[e]
35.80[a]	47.66[b]	55.20[c]	46.16[d]	41.74[e]

Source: Figures are taken from tables produced by the House Appropriations Committee.

Note: Final appropriations levels for any fiscal year include all supplemental appropriations or rescissions. They do not reflect revised estimates of offsetting receipts. They include advance appropriations provided in the fiscal year, not advance appropriations available in the fiscal year.

a. Figure includes $7 million in emergency supplemental funding. Regular FY2007 appropriations totaled just under $35.8 billion.

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

c. Figure includes $13.67 billion in emergency funding provided as fiscal stimulus by P.L. 111-5. Regular FY2009 appropriations totaled $41.5 billion.

d. Figure includes $100 million in emergency funding provided by P.L. 111-212 for assistance in response to disasters occurring in the spring and summer of 2010.

e. This figure is an estimate, which assumes the application of the 0.2% across-the-board rescission. This figure may change.

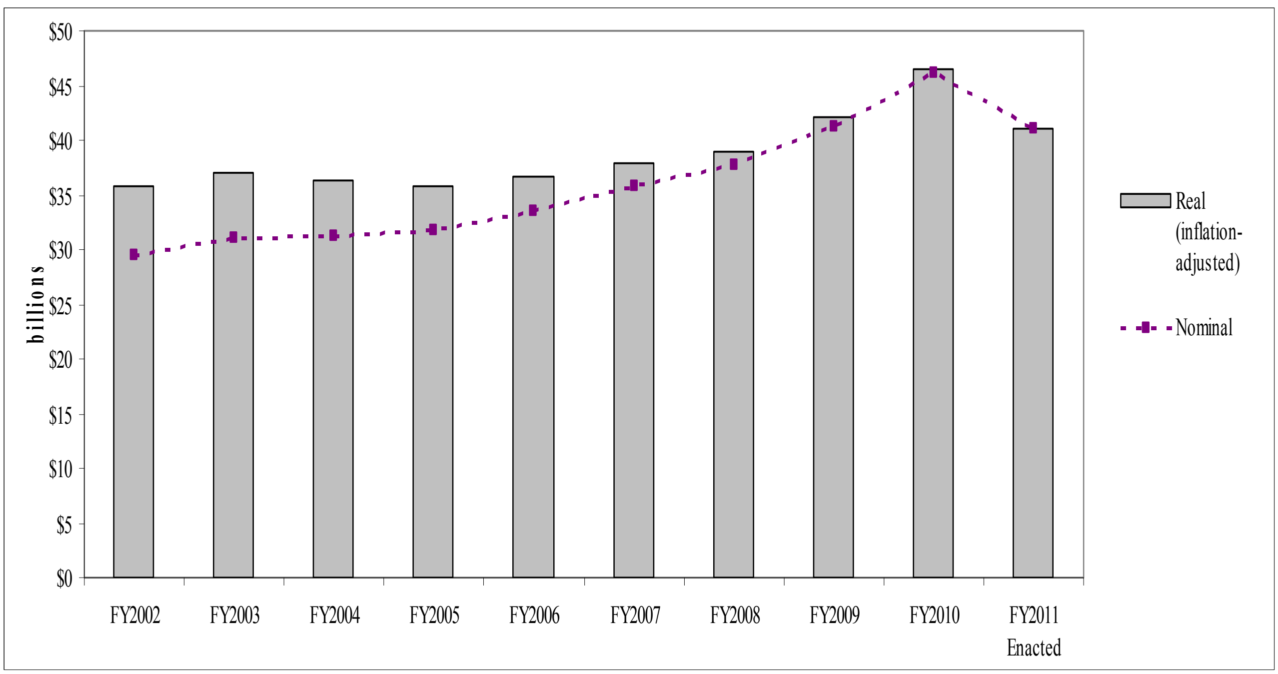
Overview and Trends in HUD Funding

HUD's budget authority (not including emergency supplemental funding, discussed later) has increased by about 40% since 2002. As demonstrated by the line in **Figure 1**, the rate of growth had increased in recent years. In FY2004 and FY2005, year-over-year growth was relatively flat (under 2%), but, beginning in FY2006, HUD's budget had year-over-year increases of 5% or more each year, with growth of nearly 10% in FY2009 and nearly 12% in FY2010. The FY2011 appropriations act reversed the recent trend of increasing budget authority by decreasing HUD's budget authority by nearly 11% compared to FY2010.

Adjusting for inflation, the growth in "real" funding (shown by the gray bars in **Figure 1**) has been less robust. Over the 10-year period, adjusting for inflation, HUD's budget grew by about 15%. Through FY2008, the year-over-year growth never exceeded about 3.5%, and in two years there were declines. Most of the growth over the previous 10 years came in two years: FY2009 and FY2010, although about half of that growth was eliminated with the reductions in FY2011.

Figure 1. HUD (Non-emergency) Budget Authority, FY2002-FY2011

In nominal dollars and in real (2011) dollars



Source: CRS analysis of congressional funding data contained in annual appropriations acts. FY2011 figures are CRS estimates based on congressional appropriations documents and information from HUD.

Notes: Real figures are presented in 2011 dollars, adjusted using the GDP chained index from the President's FY2012 budget request as well as the Congressional Budget Office's estimate for FY2010, as presented in their Budget and Economic Outlook: Fiscal Years 2011 to 2021. Figures are net budget authority figures, which include appropriations, offsets, and rescissions.

As shown in **Figure 2**, HUD's funding is made up of several components. The components of HUD's annual funding, or budget authority, include 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] 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*, usually 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 annual appropriations.

Congressional appropriators are generally subject to limits on the amount of new non-emergency discretionary funding 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. 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 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 net budget authority. Net budget authority is also the "cost" of the HUD budget, as estimated by the Congressional Budget Office (CBO) in its scorekeeping process.[3] The total amount of net 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. Because of the role of offsets, declining or increasing net budget authority does not necessarily mean declining or increasing regular appropriations.

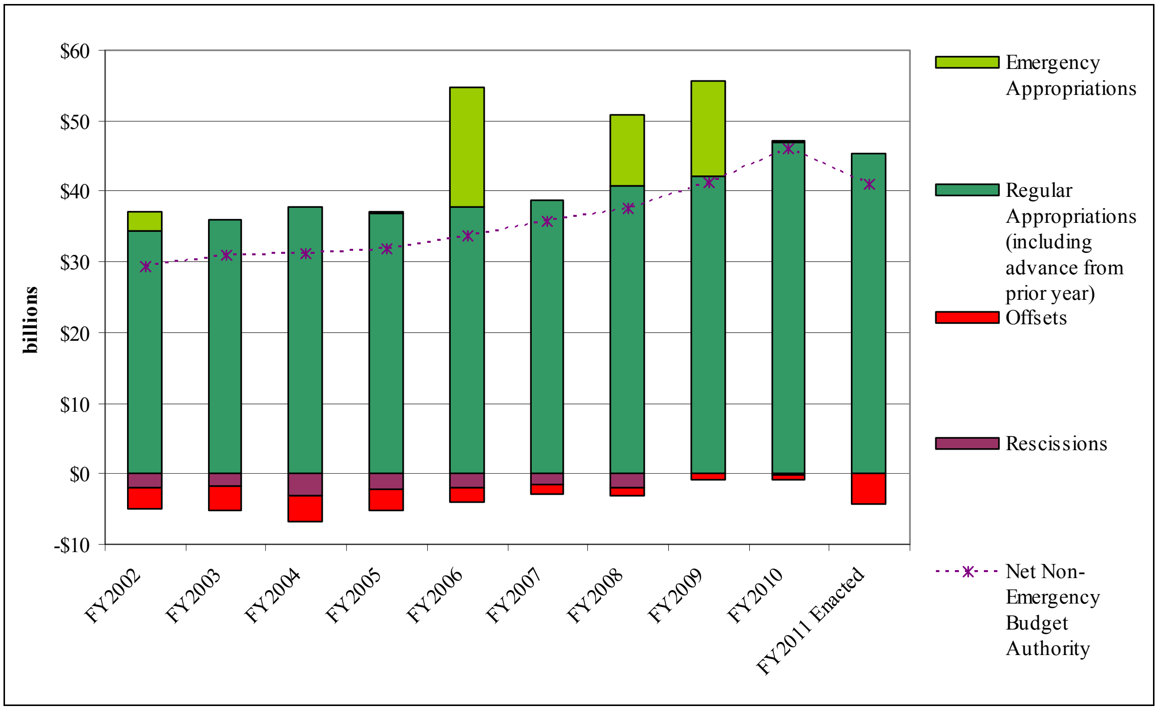
As shown by the line in **Figure 2**, which repeats the data shown by the line in **Figure 1**, net non-emergency budget authority for HUD increased 40% between FY2002 and FY2011, from over $29 billion to over $41 billion. However, the overall increase in net new non-emergency budget authority masks several important trends.

[1] For more information, see CRS Report RS20095, *The Congressional Budget Process: A Brief Overview*, by James V. Saturno.

[2] According to *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.

[3] According to *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 2. Components of HUD Funding, FY2002-FY2011



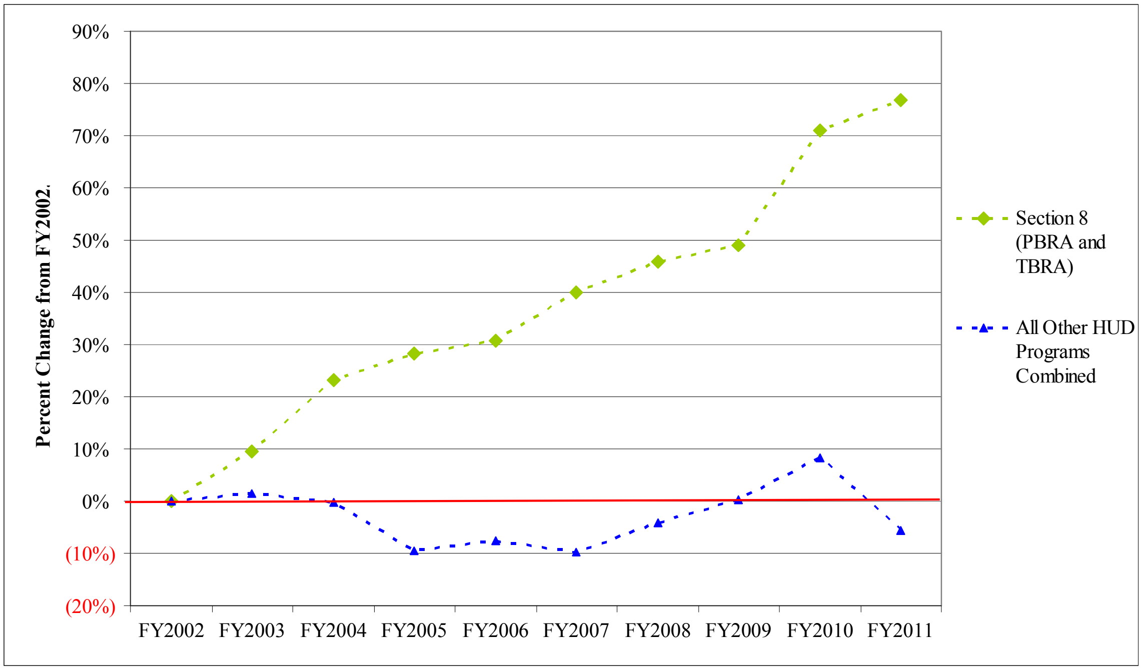
Source: CRS analysis of congressional funding data contained in annual appropriations acts. FY2011 figures are CRS estimates based on congressional appropriations documents and information from HUD.

As noted earlier, between FY2002 and FY2010, HUD's net non-emergency budget authority increased by 57%. During that period, regular annual appropriations, which is the amount provided by Congress to fund HUD's programs and activities, grew by only 37% (shown by the dark green bars in **Figure 2**). During the same period, the amount available in offsetting receipts and collections and the amount rescinded, which Congress uses to reduce the cost of providing new appropriations, declined by more than 70% and 96%, respectively (shown by the dark and light red bars in **Figure 2**). In summary, from FY2002-FY2010, appropriations were increasing, but the amount of offsets and rescissions available to offset the cost of those appropriations was decreasing.

That trend was reversed in FY2011, when Congress cut the amount of appropriations relative to FY2010 and, at the same time, the amount of available offsets increased. In terms of net budget authority, HUD's funding was cut by 11% in FY2011 compared to FY2010. However, regular appropriations in FY2011 were only cut by about 4%. The difference between the cut in net budget authority and appropriations is attributable to a 43% increase in offsets (discussed later in this section).

The growth in regular appropriations during this period (shown by the dark green bars in **Figure 2**) is largely attributable to growth in HUD's Section 8 tenant-based voucher and project-based rental assistance programs, which combined are the largest component of the HUD budget. As can be seen in **Figure 3**, from FY2002 to FY2011 appropriations for the combined Section 8 programs grew by 77%, while combined funding for all other HUD programs and activities declined by about 6%. During this period, the Section 8 programs went from accounting for about 46% of HUD's regular appropriations to accounting for over 60% of HUD's regular appropriations. As can be seen in the chart, for a number of years Section 8 funding grew while combined funding for all other HUD programs declined. In FY2008, FY2009, and FY2010, combined funding for other HUD programs began to grow, but it declined sharply in FY2011.

Figure 3. Percent Change Since 2002 in Annual Appropriations for Section 8 Programs Compared to All Other HUD Programs Combined

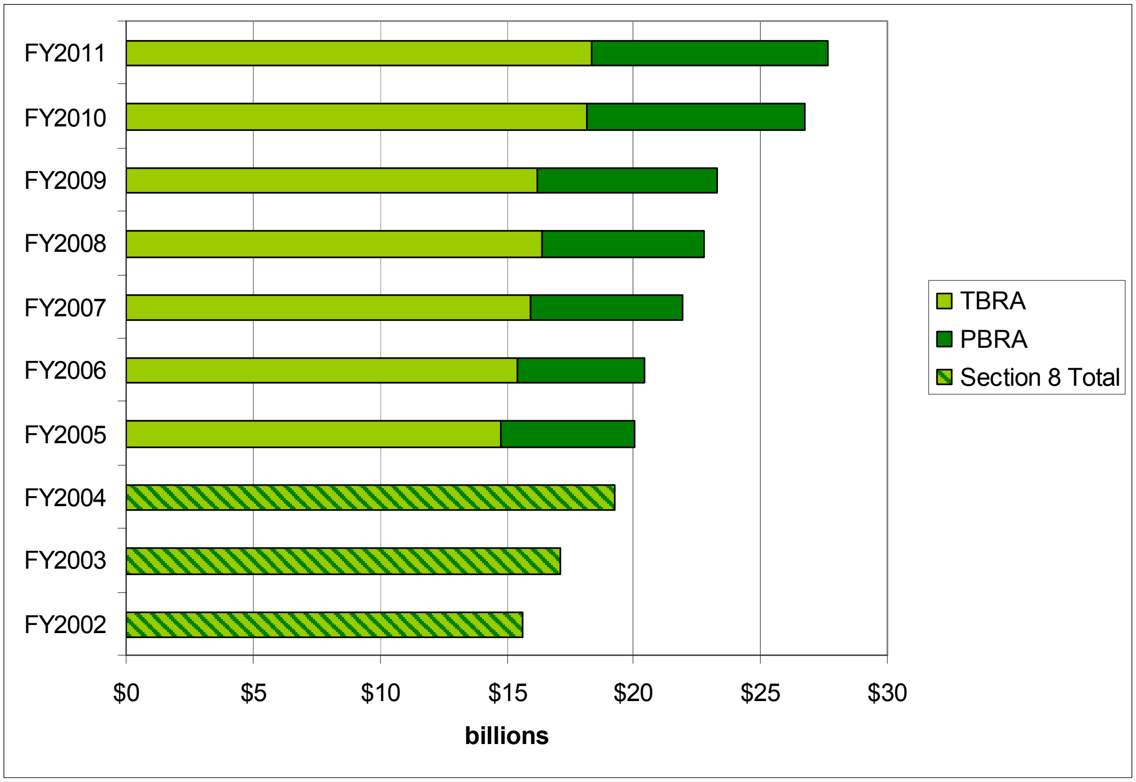


Source: CRS analysis of congressional appropriations documents. FY2011 figures are CRS estimates based on congressional appropriations documents and information from HUD.

Notes: Figures for HUD represent gross appropriations, not reduced for rescissions or offsets and not including emergency appropriations. Figures for Section 8 include both tenant-based and project-based rental assistance. Section 8 figures include advance appropriations available in the fiscal year and are reduced for rescissions of funding from advance appropriations, but not rescissions of prior-year unobligated balances. TBRA: tenant-based rental assistance; PBRA: project-based rental assistance.

As noted earlier, there are two Section 8 programs: tenant-based rental assistance (vouchers) and project-based rental assistance. They were funded in the same account for many years, but since FY2005 they have been funded separately. As is shown in **Figure 3**, appropriations for the Section 8 programs combined have grown by nearly 80% from FY2002 to FY2011. However, it is important to note that the rates of growth have not been the same across the two Section 8 programs. As shown in **Figure 4**, appropriations for the Section 8 project-based rental assistance (PBRA) program grew by 75% from FY2005 to FY2011; appropriations for the Section 8 tenant-based rental assistance (TBRA) program, or Section 8 Housing Choice Voucher program, grew only about one-third as much during that period, by about 24%. The growth in appropriations for PBRA is largely attributable to the renewal of old project-based Section 8 contracts when they expire. Those contracts were originally funded in the 1970s and 1980s with long-term appropriations. The contracts typically require new annual appropriations in order to be renewed. The vast majority of contracts are now funded with annual appropriations, but some expirations continue to occur and require new appropriations each year.

Figure 4. Section 8 Appropriations (TBRA and PBRA), FY2002-FY2011



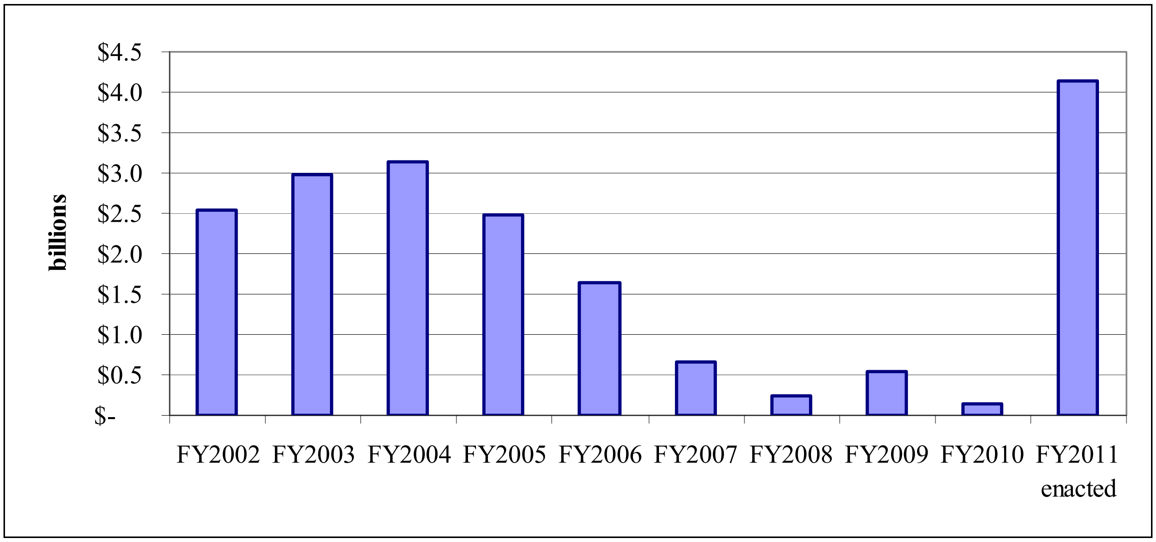
Source: FY2011 figures are CRS estimates based on congressional appropriations documents and information from HUD.

Notes: Section 8 figures include advance appropriations available in the fiscal year and are reduced for rescissions of funding from advance appropriations, but not rescissions of prior-year unobligated balances.

As discussed earlier and shown in **Figure 2**, between FY2002 and FY2010 the amount of offsetting receipts declined by about 70%. That decline was largely attributable to declines in offsetting receipts available from the FHA mortgage insurance programs. The amount available from FHA to offset the cost of new HUD appropriations had declined from a high of over $3.5 billion in FY2004 to well under $0.5 billion in FY2010. That trend completely reversed in FY2011 when the amount of offsetting receipts from FHA increased to over $4 billion, the highest level in a decade. The increase is attributable to FHA's increasing market share following the downturn in the economy, as well as to policy changes made by FHA that increased the fees charged to new FHA-insured borrowers.[4]

[4] See the discussion of the House budget resolution in the **Appendix** for more information about a proposal to change the way FHA offsets are calculated, which would potentially result in much lower receipt estimates.

Figure 5. FHA Receipts, FY2002-FY2011



Source: CRS analysis of congressional appropriations documents.

FY2011

When no FY2011 appropriations legislation was enacted before the beginning of the fiscal year (October 1, 2010), the 111th Congress enacted a series of continuing resolutions (CRs) that continued funding at the FY2010 level for most accounts in the federal budget (including all of the accounts in HUD's budget). The final CR of the 111th Congress, P.L. 111-322, was slated to expire at the earlier of March 4, 2011, or enactment of FY2011 appropriations legislation. In addition to continuing funding for HUD programs, P.L. 111-322 also extended, through the end of FY2011, FHA mortgage limit increases that would otherwise have expired in December 2010.

In the week before funding under P.L. 111-322 was scheduled to expire, the 112th Congress approved a short-term CR (H.J.Res. 44, P.L. 112-4) to fund the government through March 18, 2011. This short-term CR continued funding for all HUD programs at their FY2010 levels except for the Community Development Fund, which was reduced to eliminate funding for Economic Development Initiative (EDI) and Neighborhood Initiative (NI) earmarks.

In the week before funding under P.L. 112-4 was scheduled to expire, Congress approved another short-term CR, which continued funding through April 8, 2011 (H.J.Res. 48, P.L. 112-6). It maintained funding at the FY2010 levels for most HUD programs, but, like H.J.Res. 44, it provided no funding for EDIs and NIs. Further, P.L. 112-6 includes no funding for HUD's Brownfields Redevelopment program. Congress enacted one final short-term continuing resolution (P.L. 112-8), before enacting a final FY2011 appropriations law.

On April 15, 2011, the Department of Defense and Full-Year Continuing Appropriations Act of 2011 was signed into law (P.L. 112-10). Division A provided year-long FY2011 appropriations for the Department of Defense; Division B provided year-long FY2011 appropriations for the remaining government agencies, including HUD. It funded some HUD programs at FY2010 levels, but it reduced funding for other programs and increased funding for the two Section 8 programs. The act also included an across-the-board 0.2% rescission from all non-defense discretionary accounts, including those in HUD's budget.

The law provided an estimated $41.1 billion[5] in net new budget authority for HUD, a decrease of about 11% from the FY2010 enacted level. However, the decrease in net new budget authority only represented a 4% decrease in appropriations for HUD programs in aggregate, due to a substantial increase in offsetting collections and receipts from the FHA mortgage insurance programs from FY2010 to FY2011.

FY2012

Continuing Resolution

Since final FY2012 appropriations were not enacted before the end of FY2011, Congress has enacted a series of continuing resolutions to maintain funding for government activities. The current CR, P.L. 112-36, funds most accounts, including all of HUD's accounts, through November 18, 2011, at FY2011 levels, reduced by 1.503%.

House Action

The House Appropriations Committee has not formally reported an FY2012 THUD bill; however, on September 7, 2011, the THUD subcommittee released a draft version of its bill, which was approved by the subcommittee the next day. According to the subcommittee's press release, the bill includes about $3 billion less for HUD than was provided in FY2011 and $4 billion less than was requested by the President.

Senate Action

On September 21, 2011, the Senate Appropriations Committee reported an FY2012 THUD funding bill (S. 1596). It included about $3 billion less in net budget authority (reflecting increased offsetting receipts) and about $1.3 billion less in regular appropriations (not reflecting rescissions) for HUD than was provided in FY2011. The bill funded most accounts within a few percentage points of FY2011 levels. However, several accounts were decreased more substantially, including the Public Housing operating fund (14%) and capital fund (8%) and the HOME program (38%), among others. The bill included authority requested by the President to offset reserves in the Public Housing operating fund and enact a rental assistance demonstration, as well as legislative language designed to streamline the rent and income determination process in assisted housing programs.

On October 20, 2011, the Senate began consideration of the provisions of S. 1596 as a part of the so-called "Minibus." The Minibus, S.Amdt. 738 to H.R. 2112, includes FY2011 appropriations for those agencies under the jurisdiction of the THUD subcommittee (reflecting S. 1596) as well as two other subcommittees (Agriculture and Commerce-Justice-Science). Several HUD-related amendments were added during floor consideration, including:

- Amendment S.Amdt. 857 would increase GSE conforming loan limits and FHA loan limits for some high cost communities through December 31, 2013. On

[5] This estimate of total funding may change, depending on how the 0.2% across-the-board rescission is applied.

October 1, 2011, the loan limits under these programs reverted from higher temporary limits, which had been enacted and extended over the past several years, to lower statutory limits. The changes to the GSE conforming loan limits would be accompanied by a fee increase designed to offset the cost of the increase.

- Amendment S.Amdt. 796 would prohibit the use of grants and other funding provided in the bill to repay federal loans provided under the bill. It would further prohibit the use of grants and other funding provided in the bill to repay any federal loan.
- Amendment S.Amdt. 874 would increase funding for Fair Housing activities by about $6.6 million and decrease funding for HUD's Working Capital Fund by the same amount.
- Amendment S.Amdt. 806 would make modifications to the eligible criteria for new agencies to enter the Moving to Work demonstration.

The bill was approved by the full Senate on November 1, 2011.

Note to Reader

The remainder of this report is not yet updated to reflect House and Senate action.

President's Budget Request

In February 2011, the President released his budget request for FY2012. It included a request for nearly $47.8 billion in *gross* new appropriations for HUD in FY2012. After accounting for rescissions of prior-year unobligated balances and offsets available from the Federal Housing Administration (FHA) mortgage insurance programs, the President's request for *net* new budget authority for HUD in FY2012 totals over $41.7 billion. **Table 2** includes an account-by-account comparison of the President's request and the final FY2011 CR.

Table 2. Appropriations for HUD, FY2010, FY2011 CR, and President's FY2012 Request

(in billions of dollars)

Accounts	FY2011 Enacted[a]	FY2012 Request
Appropriations		
Management and Administration	1.326	1.350
Tenant Based Rental Assistance (Section 8 vouchers)	18.379	19.223
Transforming Rental Assistance	0.000	0.200
Public housing capital fund	2.040	2.405
Public housing operating fund	4.617	3.962
Choice Neighborhoods	0.000	0.250
HOPE VI	0.100[b]	0.000
Native American housing block grants	0.649	0.700
Indian housing loan guarantee	0.007	0.007
Native Hawaiian Block Grant	0.013	0.010
Native Hawaiian loan guarantee	0.001	0.000[c]
Housing, persons with AIDS (HOPWA)	0.334	0.335
Community Development Fund (Including CDBG)	3.501	3.804
Energy Innovation Fund	0.000	0.000
Sustainable Communities	0.000	0.150
Section108 loan guarantee; subsidy	0.006	0.000[c]
Brownfields redevelopment	0.000	0.000
HOME Investment Partnerships	1.607	1.650
Self-Help Homeownership	0.082	0.050
Homeless Assistance Grants	1.901	2.372
Project Based Rental Assistance (Section 8)	9.264	9.429
Housing for the Elderly	0.399	0.757
Housing for Persons with Disabilities	0.150	0.196
Housing Counseling Assistance	0.000	0.088
Manufactured Housing Fees Trust Fund	0.016	0.014
Rental Housing Assistance	0.040	0.016
FHA Expenses	0.215	0.239
GNMA Expenses	0.000	-0.070
Research and technology	0.048	0.057
Fair housing activities	0.072	0.072
Office, lead hazard control	0.120	0.140
Working capital fund	0.200	0.243
Inspector General	0.125	0.126

Accounts	FY2011 Enacted[a]	FY2012 Request
Transformation Initiative-Combating Mortgage Fraud	0.071	0.000
Appropriations Subtotal (Including advances provided in current year for subsequent year)	*45.282*	*47.775*
Rescissions		
HOPE VI Rescission	0.000	0.000
Sustainable Communities Rescission	0.000	0.000
Energy Innovation Fund Rescission	0.000	0.000
Brownfields Redevelopment Rescission	0.000	0.000
Rental housing assistance rescission	-0.041	-0.007
Rescissions Subtotal	*-0.041*	*-0.007*
Offsetting Collections and Receipts[d]		
Manufactured Housing Fees Trust Fund	-0.016	-0.007[d]
Federal Housing Administration (FHA)	-3.386[e]	-5.494[d]
GNMA	-0.729[e]	-0.528[gd]
Offsetts Subtotal	*-4.131*	*-6.029*[d]
Totals		
Authorized Budget Authority	***41.110***	***41.739***
Available Budget Authority (adjusted for advances)	***41.095***	***41.733***

Source: Table prepared by CRS based on H.Rept. 111-564 and Congressional Budget Office estimates of H.J.Res. 48, and the President's FY2012 budget documents.

a. Figures for P.L. 112-10 are calculated by CRS to assume the application of the 0.2% across-the-board rescission evenly across accounts, sub-accounts, and activities. The Administration has some flexibility in applying the across-the-board rescission, so these estimates may change.

b. Includes a $65 million set-aside for a Choice Neighborhoods demonstration.

c. The President's budget requested a new fee structure for this account, which would eliminate the need for appropriations.

d. The estimates for FY2012 are based on the President's estimates of offsetting receipts; the Congressional Budget Office (CBO), when it releases its re-estimate of the President's budget, may have a different estimate of the amount of offsetting receipts. This table will be updated to reflect the CBO estimates when they are released. Re-estimates may change the totals presented in this table.

e. Totals include CBO's estimates of increased offsetting receipts resulting from increased loan limits authorized in Section 145 of P.L. 111-242.

f. Includes an additional $9 million payment to the manufactured housing fee trust fund.

g. The President's budget proposes to move funding for GNMA expenses from the management and expenses account to a separate GNMA account. The President's budget requests $30 million for GNMA expenses, but proposes that the expenses will be offset by $100 million in fees collected. This number may change based on re-estimates of the President's budget, as described in Table Note c.

Key Issues in the President's Budget

Community Development Block Grants (CDBG)

The 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. For FY2010, CDBG formula funds were awarded to approximately 1,151 entitlement communities, the 50 states, the District of Columbia, Puerto Rico, and the insular areas of Guam, the Virgin Islands, American Samoa, and the Mariana Islands. CDBG assistance may be used to fund eligible activities that meet one of three national objectives:

- to principally benefit low- and moderate-income persons,
- to aid in eliminating or preventing slums or blight, or
- to address an imminent threat to the health and safety of the public.

The Administration's proposed budget for FY2012 recommends $3.691 billion for the formula portion of the program awarded to entitlement communities ($2.579 billion), the states and Puerto Rico ($1.105 billion), and insular areas ($7 million). The budget proposal would increase CDBG formula grants by 11.8%, $388.5 million more than the $3.301 billion appropriated in FY2011. The Administration's budget also proposes to fund CDBG grants to Indian tribes at $65 million, as required by the CDBG program's authorizing statute. In addition, the Administration is requesting $23 million for Guam to address community development needs arising from the relocation of military facilities and personnel to the island.

As in previous years, the Administration's budget does not include funding for Economic Development Initiative and Neighborhood Initiative Grants, two programs subject to congressional earmarks. The Administration states that it supports funding for these activities through the regular CDBG formula program.

HOME

The HOME Investment Partnerships Program provides block grant funding to states and certain localities (known as "participating jurisdictions") to be used for a variety of affordable housing activities. HOME funds can be used for either owner-occupied or rental housing activities, and they must benefit households that are considered to be either low-income (i.e., incomes at or below 80% of area median income) or very low-income (i.e., incomes at or below 60% of area median income).[6] Between the program's inception in 1992 and the end of FY2010, the HOME program has funded nearly 979,000 units of affordable housing and funded tenant-based rental assistance for nearly 234,000 families.[7]

---

[6] For more information about the HOME Investment Partnerships Program, see CRS Report R40118, *An Overview of the HOME Investment Partnerships Program*, by Katie Jones.

[7] U.S. Department of Housing and Urban Development, *FY2012 HOME Investment Partnerships Program Budget Justification*, p. V-2, http://portal.hud.gov/hudportal/documents/huddoc?id=HOME_2012.pdf.

The FY2012 proposed budget requests $1.65 billion for the HOME program. This represents an increase of $43 million (or almost 2.7%) from the enacted FY2011 funding level of $1.607 billion, but a reduction of $175 million (or almost 9.6%) from the enacted FY2010 funding level of $1.825 billion. The FY2012 proposed budget also proposes eliminating funding for the Self-Help Homeownership Opportunity Program (SHOP), noting that the activities funded under SHOP are also activities on which states and participating jurisdictions can choose to use their HOME funds. SHOP provides funding to eligible nonprofits to use for acquisition and infrastructure improvement costs related to sweat equity and volunteer-based homeownership programs that benefit low-income families.

Housing Counseling

Through its Housing Counseling Assistance Program, HUD annually provides competitive grants to HUD-approved housing counseling agencies. These housing counseling agencies provide a range of housing counseling services, including pre-purchase homeownership counseling; post-purchase homeownership counseling; mortgage delinquency counseling; and counseling for renters, the homeless, or seniors seeking reverse mortgages. (Receiving housing counseling is a requirement for obtaining a Home Equity Conversion Mortgage, or HECM, which is a reverse mortgage insured by the Federal Housing Administration.)

In recent years, congressional appropriations for HUD's housing counseling program had been increasing, partly in response to increased mortgage default and foreclosure rates. In FY2010, Congress provided $87.5 million for HUD's housing counseling program. The President's FY2012 budget requests $88 million, an increase of $500,000 over the FY2010 level. However, in FY2011 Congress did not provide any funding for HUD's housing counseling program. The elimination of HUD housing counseling funding reflected the fiscal environment at the time that the FY2011 appropriations law was passed, as well as some concerns over the time it took HUD to distribute prior years' funds. Some policymakers also questioned whether the funding was duplicative of foreclosure mitigation counseling funds that have been appropriated to the National Foreclosure Mitigation Counseling Program, administered by NeighborWorks America, since FY2008.[8] However, proponents of HUD's housing counseling program note that the HUD funding can be used for a wider range of types of housing counseling than the NeighborWorks funds, which are limited to foreclosure counseling. Congress did continue to fund the NeighborWorks counseling program in FY2011 at its FY2010 level of $65 million.

Housing advocates and some Members of Congress have asked appropriators to restore funding for HUD's housing counseling program, arguing that the program is the only dedicated federal source of funds for many types of counseling (including reverse mortgage counseling), and that current economic conditions make the need for housing counseling services more acute.[9]

---

8 For example, see U.S. Congress, House Committee on Appropriations, Subcommittee on Transportation, Housing and Urban Development, and Related Agencies, *Budget Hearing—Housing Counseling with Neighborhood Reinvestment Corporation—Deputy Assistant Secretary for Single Family Housing and NeighborWorks Acting CEO*, 112th Cong., 1st sess., March 29, 2011.

9 For example, see a letter signed by several housing advocacy organizations regarding the elimination of funding for HUD's housing counseling program in FY2011 on the Citizens' Housing and Planning Association website at http://chapa.org/pdf/HUDhousingcounselingcutletter041211.pdf. For details on a letter signed by 24 Senators expressing support for restoring funding for housing counseling, see Senator Al Franken's website, "Sen. Franken: Restore Funding to Program that Helps Avoid Foreclosure," press release, June 2, 2011, http://franken.senate.gov/?p=
(continued...)

For more information on both HUD's housing counseling program and the NeighborWorks counseling funding, see CRS Report R41351, *Housing Counseling: Background and Federal Role*, by Katie Jones.

Section 202 and Section 811

Through the Section 202 Supportive Housing for the Elderly program and the Section 811 Supportive Housing for Persons with Disabilities program, HUD provides capital grants and rental assistance to nonprofit developers to build or rehabilitate housing units for elderly residents and residents with disabilities.[10] HUD capital grants have funded more than 106,000 units of Section 202 housing and more than 30,000 units of Section 811 housing.[11] In addition, the Section 811 program has historically provided funding for tenant-based vouchers for persons with disabilities. Currently, approximately 14,811 vouchers are funded.[12]

The FY2012 proposed budget would increase funding for the Section 202 account (which includes funds for Service Coordinators and the Assisted Living Conversion Program) compared to the FY2011 level by $358 million, nearly 90%. However, this would be a reduction of about 8.2% compared to the amount appropriated in FY2010. The FY2011 appropriation reduced Section 202 funding by more than half—from $825 million to $399 million. The President's request would increase funding to $747 million. Of this amount, $387 million would be allocated for new capital grants and project rental assistance (referred to as PRAC), up from approximately $100 million in FY2011 (the level was $510 million in FY2010). HUD estimates that the FY2012 funding would result in 2,235 new units of Section 202 housing (the FY2010 level is expected to be 3,449).[13] Estimates for FY2011 are not available.

Section 811 program funding would also be increased over FY2011 levels in the President's FY2012 budget proposal. In FY2011, Congress reduced funding for the Section 811 program from $300 million in FY2010 to $150 million. In FY2012, the President proposed to fund the program at $196 million. However, the overall funding number itself does not tell the full story, and the amount available for the Section 811 program would actually be more than the FY2010 appropriation. A portion of the President's proposed reduction from FY2010 levels would be due to a shift of funds to renew Section 811 tenant-based vouchers from the Section 811 account to the Section 8 tenant-based rental assistance account. This shift would be consistent with language that was enacted in the Frank Melville Supportive Housing Investment Act (P.L. 111-374), which

---

(...continued)

press_release&id=1560.

[10] For more information about the Section 202 program, see CRS Report RL33508, *Section 202 and Other HUD Rental Housing Programs for Low-Income Elderly Residents*, by Libby Perl. For more information about the Section 811 program, see CRS Report RL34728, *Section 811 and Other HUD Housing Programs for Persons with Disabilities*, by Libby Perl.

[11] U.S. Department of Housing and Urban Development, *FY2009 Performance and Accountability Report*, November 16, 2009, p. 349, http://hud.gov/offices/cfo/reports/hudfy2009par.pdf. Note that prior to the capital grants, which were instituted in 1992, the Section 202 program funded new units of housing through direct government loans. Approximately 216,000 units of housing were funded during the loan phase of the Section 202 program. See U.S. Department of Housing and Urban Development, *Section 202 Supportive Housing for the Elderly: Program Status and Performance Measure*, June 2008, p. 22, http://www.huduser.org/Publications/pdf/sec_202_1.pdf.

[12] U.S. Department of Housing and Urban Development, *FY2009 Performance and Accountability Report*, p. 349.

[13] U.S. Department of Housing and Urban Development, *FY2012 Budget Justifications*, p. C-5, http://portal.hud.gov/hudportal/documents/huddoc?id=Housing_Elderly_2012.pdf.

authorized appropriations to Section 8 sufficient to support the conversion of existing Section 811 vouchers to the Section 8 account. In FY2010, $87 million from the Section 811 account was allocated for voucher renewals, and in FY2011 a total of $67 million went toward voucher renewals—$32 million from the Section 811 account and $35 million from the Section 8 account. In FY2012, the President's budget requests that $114 million be appropriated to the Section 8 account for Section 811 voucher renewals.

Also within the Section 811 account, the total amount of funding available for new capital grants and PRAC contracts would be $111 million—this represents an increase from FY2011 levels ($50 million), but a reduction from the FY2010 level ($161 million). However, it is possible that another change enacted as part of P.L. 111-374 could make the funding go further than it did in FY2010. Specifically, as a result of a change to the Section 811 statute, Section 811 PRAC assistance can now be used to assist tenants in multifamily housing units developed using other, non-Section 811 sources of funding such as Low Income Housing Tax Credits and HOME funds. Without the need for capital grants to construct the housing, it is possible that more funds would be available to fund rental assistance. While this may occur, HUD's budget justification estimates that the total number of new units funded in FY2012 would be 577, down from 997 in FY2010.[14] Estimates for FY2011 are not available.

Public Housing

The public housing program provides publicly owned and subsidized rental units for very low-income families. Created in 1937, it is HUD's oldest housing assistance program, and arguably HUD's most well-known assistance program. (For more information, see CRS Report R41654, *Introduction to Public Housing*, by Maggie McCarty.) 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 million units. Public housing receives federal funding under three accounts, which, when combined, result in public housing being the third-largest funded program in HUD's budget (following the two Section 8 programs, discussed later in this report). Through the operating fund, HUD provides funding 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 funding to help demolish and/or redevelop severely distressed public housing developments, with a focus on building mixed-income communities.

In terms of operating funding, the President's budget requests a 14% reduction compared to the final FY2011 funding law. The President's budget proposes to supplement the requested funding level by offsetting the funding allocations to PHAs with reserves above a certain level. This proposal would effectively force certain PHAs to spend down their reserves. This proposal has been opposed by PHA industry groups, who contend that the reserves are necessary and that the proposal punishes PHAs who have managed their funding well.[15] HUD contends that if funding is

---

[14] Ibid., p. D-5, http://portal.hud.gov/hudportal/documents/huddoc?id=Housing_w_Disa_2012.pdf.

[15] See Council of Large Public Housing Authorities (CLPHA) Issue Brief on Operating Reserves, available from http://www.clpha.org/articledetail/?aid=233.

limited, this strategy ensures that funding levels will be higher for agencies without large reserves.[16]

In terms of capital funding, the President's budget requests about a $100 million decrease compared to FY2010 (a 4% decrease). However, the amount requested by the President is a nearly 19% increase compared to the amount provided in FY2011. HUD's budget documents note that the department feels that capital funding alone will not be sufficient to meet the backlog of unmet capital needs in public housing, and they note that the department is pursuing its Transforming Rental Assistance initiative in order to help PHAs leverage private capital. (See "Transforming Rental Assistance" later in this report.)

As in FY2010 and FY2011, the President's budget requests no new funding for HOPE VI; instead, it requests $250 million for the Choice Neighborhoods Initiative. Choice Neighborhoods was a new Obama Administration proposal in the FY2010 budget. It is modeled after the HOPE VI program, which provides competitive grants to PHAs to revitalize severely distressed public housing. The Choice Neighborhoods 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 the funding. In FY2010, Congress provided $200 million to the HOPE VI account, but set aside up to $65 million for a Choice Neighborhoods demonstration. The FY2011 appropriations law reduced the funding level for the HOPE VI account to $100 million, but maintained the Choice Neighborhoods set-aside.

Brownfields

The term "brownfield" refers to abandoned or underused industrial or commercial development sites, the redevelopment or reuse of which may be complicated by the presence of hazardous waste and pollutants. Brownfield Economic Development Initiative (BEDI) grants are subject to the same requirements as other activities eligible for assistance under the CDBG program, including the requirement that BEDI activities must meet one of the three national objectives and must be incorporated into the recipient's consolidated and annual action plans. BEDI grants are awarded on a competitive basis only in support of Section 108 loan guarantees (described later in this report under "Section 108: Restructuring"), and may be used for such activities as debt service, interest rate write downs, land write downs, site remediation costs, and loan loss reserves of Section 108 guaranteed loans. Although communities may receive Section 108 loan guarantee assistance without applying for BEDI funds, the awarding of BEDI must be accompanied by a Section 108 loan guarantee. Funds can only be used to reclaim existing brownfield sites for immediate redevelopment. Funds may not be used to allow current owners to address contamination problems caused by their own negligence, nor can funds be used to fund projects on sites included on the Environmental Protection Agency's National Priorities List (Superfund).

The Administration's budget proposal recommends terminating the program, contending that program activities may continue to be supported under the regular CDBG program and that projects are often stymied by delays, including the slow expenditure of funds. The program received no funding in FY2011.

[16] See Written Testimony of Sandra B. Henriquez, Assistant Secretary for the Office of Public and Indian Housing, U.S. Department of Housing and Urban Development (HUD), Hearing before the House Appropriations Subcommittee on Transportation, Housing and Urban Development, and Related Agencies, May 25, 2011.

Section 8 Tenant-Based Rental Assistance

The Section 8 Housing Choice Voucher program is funded through the tenant-based rental assistance account; it is both the largest assistance program administered by HUD and the largest account in HUD's budget. Most of the funding provided to the account each year funds the annual renewal funding for the almost 2.3 million vouchers that are currently authorized and being used by families to subsidize their housing. The account also provides funding for the administrative costs incurred by the PHAs that administer the program. The account is funded using both current-year appropriations and advance appropriations provided for use in the following fiscal year.[17] (For more information about the program, see CRS Report RL34002, *Section 8 Housing Choice Voucher Program: Issues and Reform Proposals*, by Maggie McCarty.)

The President's budget requests over $19.2 billion for Section 8 vouchers in FY2012, which is over $800 million more than what was provided in FY2011. The President's budget documents indicate the amount requested would be sufficient to fund all existing vouchers expected to be in use by families in FY2012. It also includes funding to create new vouchers to serve homeless veterans, families involved in the child welfare system, and new interagency collaborative demonstrations between HUD and other agencies for homeless and at-risk families with children and persons with disabilities. (For more information on the President's request for funding for new vouchers to serve homeless veterans, homeless and at-risk families with children, and homeless individuals with disabilities, see the "Homelessness Assistance" section later in this report.)

Section 8 Project-Based Rental Assistance

The project-based rental assistance account provides funding to administer and renew existing project-based Section 8 rental assistance contracts between HUD and private multifamily property owners. Under those contracts, HUD provides subsidies to the owners to make up the difference between what eligible low-income families pay to live in subsidized units (30% of their incomes) and a previously agreed-upon rent for the unit. 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- to 40-year periods, so the monthly payments for owners came from old appropriations. However, once those contracts expire, they require new annual appropriations if they are renewed. As more contracts expire, and assuming the owners choose to renew, more new appropriations are needed to maintain the subsidies. Further, some old contracts do not have sufficient funding to finish their existing terms, so new funding is needed to complete the contract (referred to as amendment funding). As more contracts have shifted from long-term appropriations to needing new appropriations, this account has grown and become the second-largest account in HUD's budget.

The President's budget request includes a $165 million increase in funding for project-based rental assistance. The amount requested includes funding to renew all contracts that are now in need of new appropriations (approximately 83% of all contracts, according to HUD's budget documents).

[17] For more information about advance appropriations, see CRS Report RS20441, *Advance Appropriations, Forward Funding, and Advance Funding*, by Sandy Streeter.

Administrative Reforms to Rental Assistance Programs

The President's budget includes a request for several statutory changes that would affect HUD's rental assistance programs, including the public housing and Section 8 programs. Specifically, HUD has asked for language that would

- broaden the definition of "extremely low-income" to reflect the higher of 30% of area median income or the poverty thresholds published by the Department of Health and Human Services (HHS);
- revise the deductions from income used to calculate rent for elderly or disabled families by increasing the standard deduction and increasing the threshold for deducting medical or related costs;
- permit the income of "fixed-income" families to be recertified every three years instead of every year;
- allow higher voucher payment standards for persons with disabilities;
- permit HUD to make revisions to the way Fair Market Rent is calculated; and
- permit HUD to run a demonstration to test different models for setting rent in rental assistance programs.

Versions of these provisions were included in Section 8 voucher reform legislation considered in the 111th Congress.[18] HUD estimates that these changes would result in an overall reduction in the cost of HUD rental assistance programs.

Homelessness Assistance

The primary source of federal funding for housing for homeless individuals and families is HUD Homeless Assistance Grants, which were most recently reauthorized in the 111th Congress as part of the Helping Families Save Their Homes Act (P.L. 111-22). Prior to enactment of P.L. 111-22, there were four Homeless Assistance Grants; the new law consolidated three of the grants, so two grants remain: the Emergency Solutions Grants (ESG) program and the new Continuum of Care (CoC) program. The ESG program funds the emergency needs of people who are homeless and homelessness prevention activities. The CoC program focuses on the longer-term needs of persons experiencing homelessness, including transitional and permanent housing and supportive services. FY2011 is the first year in which the CoC program is to be implemented.

The President's budget proposes increased funding for the Homeless Assistance Grants—approximately $2.4 billion in FY2012 compared to $1.9 billion in FY2011. Funding for the ESG program would increase from $225 million in FY2011 to $286 million in FY2012, and proposed funding for the CoC program would be $2 billion in FY2012, compared to about $1.7 billion for the three programs that are expected to be replaced by the CoC program when it is fully implemented in FY2012.

[18] For more information about Section 8 voucher reform legislation, see CRS Report RL34002, *Section 8 Housing Choice Voucher Program: Issues and Reform Proposals*, by Maggie McCarty.

Additional funding for homeless persons would also be provided through the Section 8 tenant-based rental assistance account. Congress has funded Section 8 vouchers for homeless veterans through the tenant-based account since FY2008, and the President's budget proposes to provide $75 million in the tenant-based rental assistance account to fund approximately 11,500 additional vouchers in FY2012. This would bring the total number of vouchers available to serve homeless veterans up to more than 40,000. In addition, for the second year in a row the President's budget would fund a demonstration program in which HUD would collaborate with the Department of Health and Human Services (HHS) to fund vouchers for homeless individuals with physical and mental health issues and with the Department of Education (ED) to fund vouchers for homeless families with children. The budget proposes $57 million for this purpose in the tenant-based rental assistance account, which would fund an estimated 7,500 vouchers.

Transforming Rental Assistance

President Obama's FY2012 budget again requests funding for a new "Transforming Rental Assistance" initiative, which was initially proposed in the FY2011 budget request. The initiative is designed to streamline HUD's multiple rental assistance programs in order to permit owners of HUD-assisted properties to better leverage outside resources. Specifically, the $200 million requested would be used to transfer a variety of HUD-assisted housing units with project-based rental assistance from their existing subsidy types to a new form of project-based rental assistance. For FY2012, HUD is proposing that TRA be treated as a demonstration, with a rigorous assessment component, under which up to 236,000 units of public housing and other rent-assisted units owned by private property owners could convert to long-term Section 8 contracts or project-based Section 8 vouchers. According to HUD's budget documents, the demonstration will test conversion under TRA as a tool for preserving public and other assisted housing. Further, this new form of rental assistance will feature tenant mobility, meaning that families living in units receiving this new form of project-based rental assistance would have the option to take their subsidies with them if they choose to move to a new unit of private market housing.

Section 108: Restructuring

The Section 108 loan guarantee program allows states and entitlement communities to pledge their annual CDBG allocations as collateral in order to help finance 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 allocations for qualifying activities. As security against default, states and entitlement communities must pledge their current and future CDBG allocations.

The Administration's FY2012 budget proposes restructuring the program and doubling its loan commitment ceiling from $250 million in FY2010 to $500 million in FY2012. The Administration's FY2012 budget justifications noted that given the continued difficulties in the credit markets, the proposed increase in funding would help local governments finance large-scale projects at a rate slightly above Treasury yields. In addition to an increase in the loan commitment ceiling, the Administration proposes revamping the program by charging a fee-based assessment to borrowers accessing the program, which would eliminate the need for an appropriated credit subsidy. This proposal was first made by the Administration in its FY2010 budget, but it was rejected by Congress in FY2010 and FY2011 in favor of maintaining the status quo.

Sustainable Communities

The Administration is requesting $150 million to fund its multipronged Sustainable Communities Initiative (SCI). This is the same amount requested by the Administration and approved by Congress for FY2010, the first year of the SCI, but it is $51 million more than the amount appropriated for FY2011. Unlike the FY2010 and FY2011 appropriations for SCI, which were included as subaccounts under the Community Development Fund (CDF), the Administration is proposing to fund the SCI as a separate appropriation. The Administration's FY2012 request would be used to fund the program's three components:

- **Regional Integrated Planning Grants.** The Administration is requesting $100 million that 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 (DOT), the Environmental Protection Agency (EPA), and other federal agencies.
- **Community Challenge Grants (CCGs).** The Administration is requesting $40 million for this component of SCI. Funds 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.
- **Research and Evaluation.** The Administration is requesting $10 million to support research efforts focusing on quantifying and evaluating the benefits and tradeoffs related to sustainable communities, including the long-term benefits of Regional Integrated Planning Grants and Community Challenge Grants. In addition, funds would be used to support efforts to improve the technical capacity of entities involved in regional and community planning and development.

It should be noted that, as proposed by the Administration, these three initiatives are to be administered through the recently created Office of Sustainable Housing and Communities within HUD.

The Status of FHA

The Federal Housing Administration (FHA) insures mortgage loans made by private lenders to eligible borrowers. The provision of FHA insurance helps to make mortgage credit more widely available, and at a lower cost, than it might be in the absence of the insurance. Borrowers of FHA-insured loans pay both upfront and monthly fees, or premiums, for the cost of the insurance.

The FHA insurance programs are administered primarily through two program accounts in the HUD budget: the Mutual Mortgage Insurance/Cooperative Management Housing Insurance Fund account (MMI/CMHI) and the General Insurance/Special Risk Insurance Fund account (GI/SRI). The Mutual Mortgage Insurance (MMI) Fund is the largest of the FHA insurance funds, and when there is public discussion of "FHA insurance" or "FHA loans," it is usually related to the MMI Fund and the single-family home loans insured under that fund. The Home Equity Conversion Mortgage (HECM) program, FHA's reverse mortgage program, is also included in the MMI Fund, resulting in the establishment of two risk categories in the MMI Fund: the MMI Purchase and Refinance risk category and the MMI HECM risk category. 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.

The issues discussed in this section apply to the single-family mortgage loans insured under the MMI Fund.[19]

Credit Subsidy and Offsetting Receipts

Historically, the MMI Fund has had a negative subsidy rate, which means that it generates negative credit subsidy that can be used to offset the funding needs of other programs in the HUD budget.[20] In other words, the MMI Fund has generally made more money in fees than it has paid out in claims, and therefore it has not historically needed an appropriation from Congress in order to operate, although it does traditionally receive a congressional appropriation for administrative expenses.

As described earlier, the MMI Fund is divided into the MMI Purchase and Refinance risk category and the MMI HECM risk category.[21] The Administration estimates that the Purchase and Refinance risk category of the MMI Fund will have a negative subsidy rate of -2.16% for FY2012. The Administration further estimates that this means the Purchase and Refinance risk category of the MMI Fund will generate about $4.7 billion in negative credit subsidy, meaning that it will make money for the government.[22]

---

[19] For more information on the programs in the MMI Fund, see CRS Report RS20530, *FHA-Insured Home Loans: An Overview*, by Bruce E. Foote and Katie Jones; and CRS Report RL33843, *Reverse Mortgages: Background and Issues*, by Bruce E. Foote.

[20] The Federal Credit Reform Act of 1990 (FCRA) provided 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 the MMI fund, 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 in a given year, 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 originated. However, actual cash flows over the life of the loans are likely to differ from those projected in the first year. Therefore, agencies are required to periodically revise the initial subsidy estimates to include actual experience on the loans.

[21] The MMI Fund also includes the FHA Refinance Program, a program that launched in September 2010. This program is designed to allow certain borrowers of non-FHA-insured mortgages who are current on their mortgages, but owe more than their homes are worth, to refinance into new FHA-insured mortgages, provided that the original lender or investor agrees to write off a portion of the original principal balance. The FHA Short Refinance Program is its own risk category in the MMI Fund. According to a HUD Economic Impact Analysis, the FHA Short Refinance Program is expected to generate positive credit subsidy and therefore cost the government money. (See U.S. Department of Housing and Urban Development, *Economic Impact Analysis of the FHA Refinance Program for Borrowers in Negative Equity Positions*, http://www.hud.gov/offices/adm/hudclips/ia/ia-refinancenegativeequity.pdf.) However, since Treasury has agreed to use up to $8 billion in TARP funds to help cover any losses sustained through this program, the FHA Refinance risk category is estimated to have neither a positive nor negative credit subsidy rate for HUD in FY2012. For more information on the FHA Refinance Program, see CRS Report R40210, *Preserving Homeownership: Foreclosure Prevention Initiatives*, by Katie Jones.

[22] The Congressional Budget Office's estimates of credit subsidy may differ from the Administration's estimates. Furthermore, see the **Appendix** for a discussion of a proposal to direct CBO to use a different method to score FHA receipts, and the implications of such a change for HUD's budget.

The Administration estimates that the MMI HECM risk category will have a negative credit subsidy rate of -1.52% and will generate about $300 million in negative credit subsidy in FY2012. The MMI Fund in total, then, is estimated to generate about $5 billion in negative credit subsidy in FY2012 (the $4.7 billion in credit subsidy from the Purchase and Refinance risk category plus the $300 million from the HECM risk category).

Financial Status and FHA Reforms

As is generally the case when the private market tightens its lending standards, the demand for FHA-insured mortgages has been increasing in the past few years. FHA estimated that it insured nearly 40% of home purchase loans in 2010, compared to 4.5% in FY2005.[23] FHA's higher loan volume means a higher volume of mortgage insurance premiums paid into the MMI Fund, and given that the proportion of loans to borrowers with higher credit scores has risen in recent years, FHA believes that its newer mortgages are of a better credit quality than past mortgages.[24] However, the default rate on FHA-insured loans remains high, particularly on loans originated in earlier years, and this puts some strain on the MMI Fund.

In the Cranston-Gonzales National Affordable Housing Act of 1990 (P.L. 101-625), Congress mandated that within 10 years after enactment the MMI Fund must have a capital reserve ratio of at least 2%, and that it must maintain that ratio at all times going forward. The capital reserve ratio is a measure of the resources that FHA has on hand to cover *unexpected* losses, in addition to the amount FHA has set aside for expected losses based on its current book of business. During FY2009, the capital reserve ratio was estimated to be 0.53%. This was the first time since the requirement was put into effect that the capital reserve ratio had fallen below 2%.

In FY2010, FHA made a number of changes aimed at increasing its capital reserves. These included both increasing the premiums that borrowers pay, and making changes to underwriting criteria and lender enforcement designed to strengthen the credit quality of FHA-insured loans. The FY2012 HUD Budget Justification indicated that HUD would pursue an additional increase in the annual FHA insurance premium paid by borrowers; this increase went into effect in April 2011.[25] The increased premium is expected to further strengthen FHA's capital reserves.

[23] U.S. Department of Housing and Urban Development, *FHA-Insured Single-Family Mortgage Originations and Market Share Report 2010 – Q3*, p. 3, http://www.hud.gov/offices/hsg/rmra/oe/rpts/fhamktsh/fhamktq3_10.pdf.

[24] U.S. Department of Housing and Urban Development, *FHA MMIF Programs Quarterly Report to Congress for FY2010 Q4*, p. 5, http://www.hud.gov/offices/hsg/rmra/oe/rpts/rtc/fhartc_q4_2010.pdf.

[25] U.S. Department of Housing and Urban Development, *FHA Mortgagee Letter 11-10*, February 14, 2011, http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/11-10ml.pdf.

Appendix. Related Legislation

The Budget Control Act of 2011

On August 2, 2011, President Obama signed the Budget Control Act of 2011 (BCA, P.L. 112-25) into law following lengthy negotiations surrounding the national debt limit. The act included provisions authorizing increases in the debt limit, as well as provisions designed to reduce the federal deficit. One way the act attempts to reduce deficits is by establishing discretionary spending caps, which limit the amount of money that can be spent through the annual appropriations process over the next 10 years. These statutory budget caps are enforceable via a process known as sequestration. If the caps are exceeded in any year, under sequestration the executive branch is required to proportionally reduce funding for all agencies, accounts, programs, projects, and activities by the amount necessary to reduce total budget authority to the level authorized under the caps. Some programs are exempted from sequestration or receive special treatment; none of HUD's discretionary programs are exempted or receive special treatment.

The total amount of discretionary funding available under the caps in FY2012 will be less than the amount that was available in FY2011, but more than the amount that was approved under the House budget resolution (discussed in the next section of this Appendix). How these caps will affect the Transportation-HUD appropriations subcommittees is not yet known. It is reasonable to expect, however, that the Transportation-HUD subcommittees will receive reduced funding in FY2012 (see discussion in the next section of this Appendix). Further, if the budget caps are violated in FY2012, then funding for HUD programs will be subject to sequestration.

The BCA included several other deficit reduction provisions that do not directly affect HUD but could have implications for the department. The BCA created a deficit reduction "super committee," which is charged with finding at least an additional $1.2 trillion in deficit savings. The Joint Select Committee on Deficit Reduction must report its recommendations by November 23, 2011; it is unknown whether changes to HUD programs or reductions in their funding levels will be included in those recommendations. If Congress does not enact the recommendations by January 2012, or the committee fails to meet the target of $1.2 trillion in savings, then an automatic sequestration will take place in FY2013 and the discretionary budget caps for FY2014-FY2021 will be reduced in order to achieve the desired $1.2 trillion in savings.[26]

FY2012 Budget Resolutions

The annual budget resolution acts as an agreement between the House and Senate establishing parameters within which Congress can consider legislation dealing with spending and revenue. In addition to setting forth enforceable levels of spending, revenue, and public debt, the budget resolution provides spending allocations to House and Senate committees. Once the House and the Senate Appropriations Committees receive a committee allocation in the budget resolution, they divide their allocation of discretionary budget authority among their 12 subcommittees. Each subcommittee is responsible for one of the 12 regular appropriations bills. The allocations to each

[26] For more information about the BCA, see CRS Report R41965, *The Budget Control Act of 2011*, by Bill Heniff Jr., Elizabeth Rybicki, and Shannon M. Mahan.

of the subcommittees are generally referred to as 302b allocations. While a budget resolution and subcommittee allocations alone cannot be used to determine how much funding any individual account or program will receive, they do set the parameters within which decisions about funding for individual accounts and programs can be made.

The House and the Senate budget committees began their consideration of the FY2012 budget resolution when they received the President's budget. As part of the formulation process, the committees receive information from executive branch officials, Members of Congress, and the public, as well as "views and estimates" statements from authorizing committees with jurisdiction over spending and revenues. The target date for completion of the budget resolution is April 15.

On April 6, 2011, the House Budget Committee reported its FY2012 budget resolution (H.Con.Res. 34). It was agreed to by the House on April 15, 2011. On May 10, 2011, the House Appropriations Committee released draft subcommittee allocations.[27] The THUD subcommittee received an allocation of $47.7 billion in FY2012, which is $8.7 billion (or 15%) lower than the allocation it received in FY2011 ($56.4 billion). It will be up to the THUD subcommittee to determine how to allocate the funding between HUD, DOT, and the other independent agencies funded in the bill. However, HUD's budget is made up almost entirely of discretionary funding, whereas only about a quarter of DOT's budget is discretionary. And, even though DOT's budget is larger than HUD's, funding for HUD makes up the vast majority of discretionary funding allocated by the THUD subcommittee (about 75% in FY2011). As a result, if THUD's funding allocation is reduced, HUD's budget is likely to receive the largest dollar-amount reduction.

In addition to setting overall spending levels, H.Con.Res. 34 contains another provision that may have implications for the THUD subcommittee and potentially for HUD's budget in FY2012. Section 408 directs the Congressional Budget Office, at the direction of the chairman of the Budget Committee, to use a different method when scoring FHA receipts. According to CBO, if this alternate scoring mechanism was used in FY2012, the FHA account would not produce the $5 billion in offsetting receipts estimated in the President's budget, but would instead require appropriations.[28]

Given that the FY2012 discretionary spending cap enacted under the BCA (discussed in the prior section of this Appendix) is higher than those adopted under H.Con.Res. 34, it is possible that the House will issue revised subcommittee allocations, which may include an increase for Transportation-HUD.

While the Senate Budget Committee has not yet considered an FY2012 budget resolution,[29] the FY2012 discretionary spending cap, combined with specific Senate procedural provisions enacted under the BCA, serve as an alternate to a formal Senate budget resolution for FY2012. Specifically, the procedural provisions of the BCA require the chair of the Senate Budget Committee to establish committee spending allocations, subject to the discretionary spending limit, and these levels are to have the same force and effect as if they were included and associated with a budget resolution for FY2012 adopted by Congress.[30]

---

[27] http://www.appropriations.house.gov/_files/51111FY2012SubcommitteeAllocations302bs.pdf.

[28] Letter from the Congressional Budget Office to Representative Paul Ryan, May 18, 2011, available at http://www.cbo.gov/ftpdocs/120xx/doc12054/05-18-FHA_Letter.pdf.

[29] On May 25, 2011, the Senate rejected a motion to proceed to H.Con.Res. 34.

[30] For more information about the BCA, see CRS Report R41965, *The Budget Control Act of 2011*, by Bill Heniff Jr., (continued...)

Author Contact Information

Maggie McCarty, Coordinator
Specialist in Housing Policy
mmccarty@crs.loc.gov, 7-2163

Libby Perl
Specialist in Housing Policy
eperl@crs.loc.gov, 7-7806

Eugene Boyd
Analyst in Federalism and Economic Development Policy
eboyd@crs.loc.gov, 7-8689

Katie Jones
Analyst in Housing Policy
kmjones@crs.loc.gov, 7-4162

Bruce E. Foote
Analyst in Housing Policy
bfoote@crs.loc.gov, 7-7805

(...continued)

Elizabeth Rybicki, and Shannon M. Mahan.