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

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Summary

The President's FY2012 budget was released on February 14, 2011. It included a request for nearly $47.9 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 totaled just over $42 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 ultimately provided in the FY2011 appropriations law. In total, the President's funding request for HUD would have resulted in a nearly $2.5 billion increase in gross new appropriations in FY2012 relative to FY2011. However, because the President's budget estimated a substantial increase (nearly $2 billion) in the amount of offsetting receipts available from FHA in FY2012 relative to FY2011, the net budget authority requested in the President's budget would have represented an increase of only about $600 million in FY2012 relative to FY2011.

While the House Appropriations Committee did not formally report an FY2012 Transportation, HUD, and Related Agencies (THUD) bill, on September 7, 2011, the THUD subcommittee released a draft version, including about $3 billion less in net funding for HUD than was provided in FY2011 (about $1.4 billion less in gross appropriations). 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 included about $4 billion less in net funding for HUD than was provided in FY2011 (about $1.3 billion less in gross regular appropriations). On November 1, 2011, the full Senate approved S.Amdt. 738 to H.R. 2112, the so-called Senate "Minibus." It included FY2012 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.

In mid-November, the House and Senate reported a conference agreement on the Minibus (H.R. 2112, H.Rept. 112-284), which was subsequently enacted by Congress and then signed into law by the President on November 18, 2011 (P.L. 112-55). The final FY2012 appropriations law provided about $37.3 billion in net funding for HUD, which is about 9% less than was provided in FY2011. However, part of the decrease in net funding is attributable to increases in offsetting receipts and rescission. Looking only at gross appropriations, total funding for HUD's programs was decreased by about 2%.

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 and the future (see the **Appendix** for more information).

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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 (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
35.80[a]	47.66[b]	55.20[c]	46.16[d]	41.11

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.

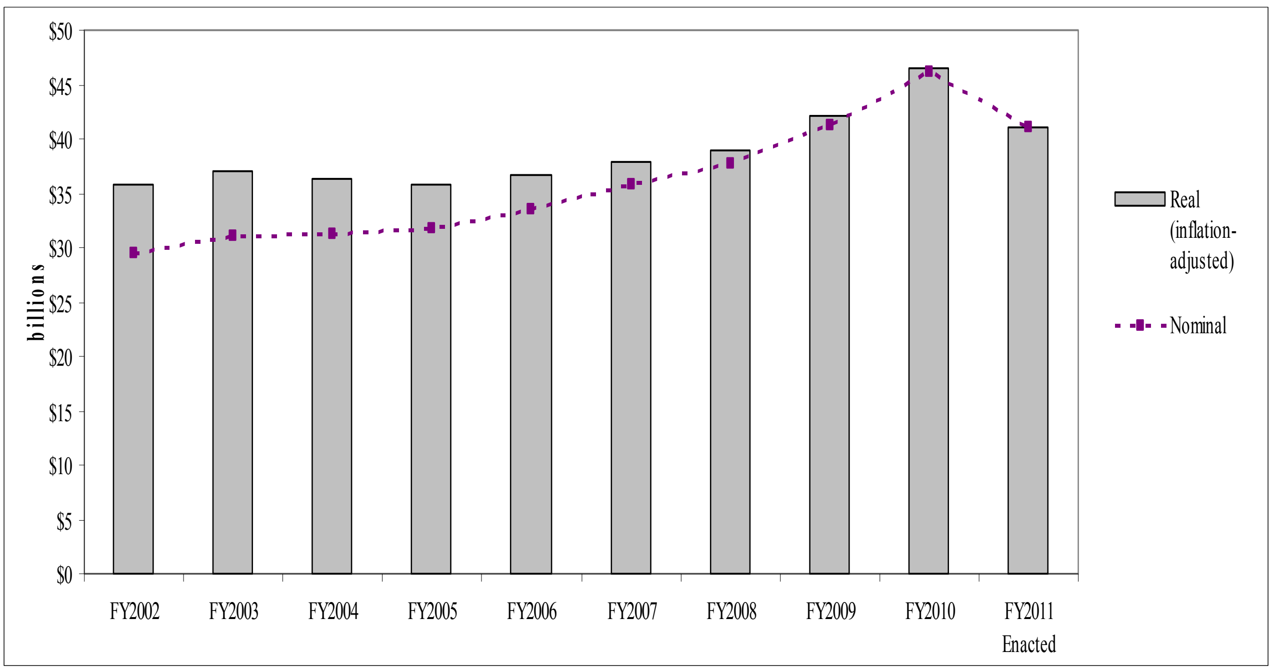
Overview and Trends in HUD Funding

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.

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.

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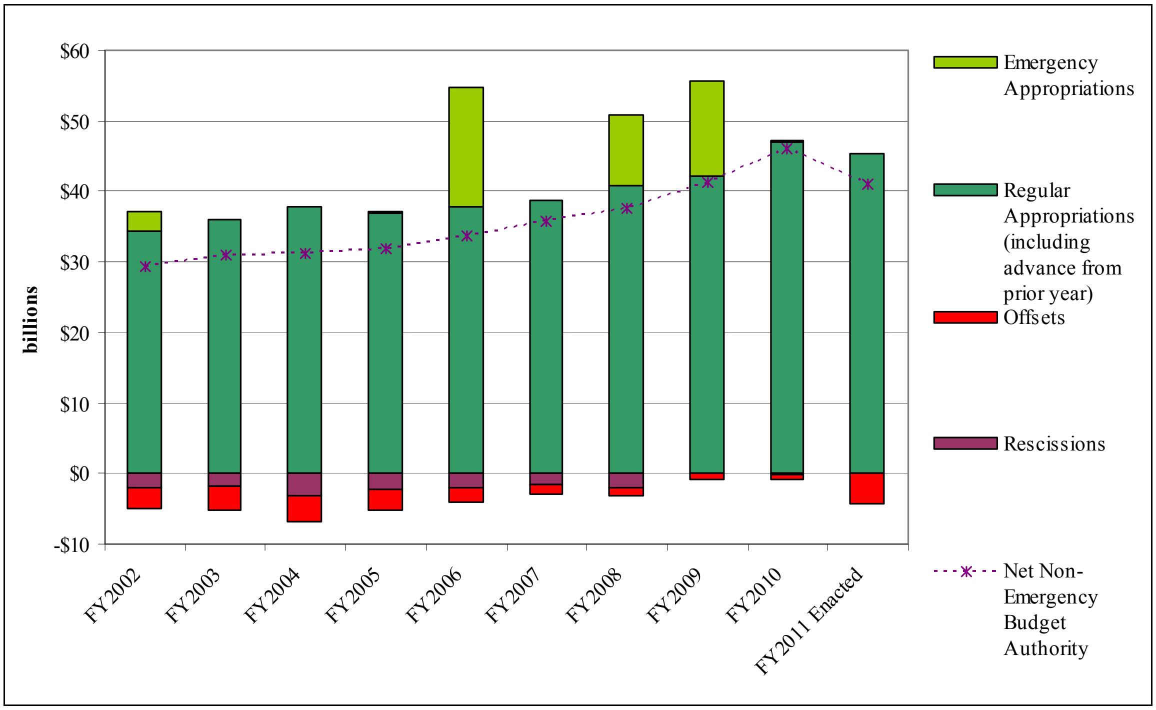
[1] For more information, see CRS Report RS20095, *The Congressional Budget Process: A Brief Overview*, by (name red acted).

[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



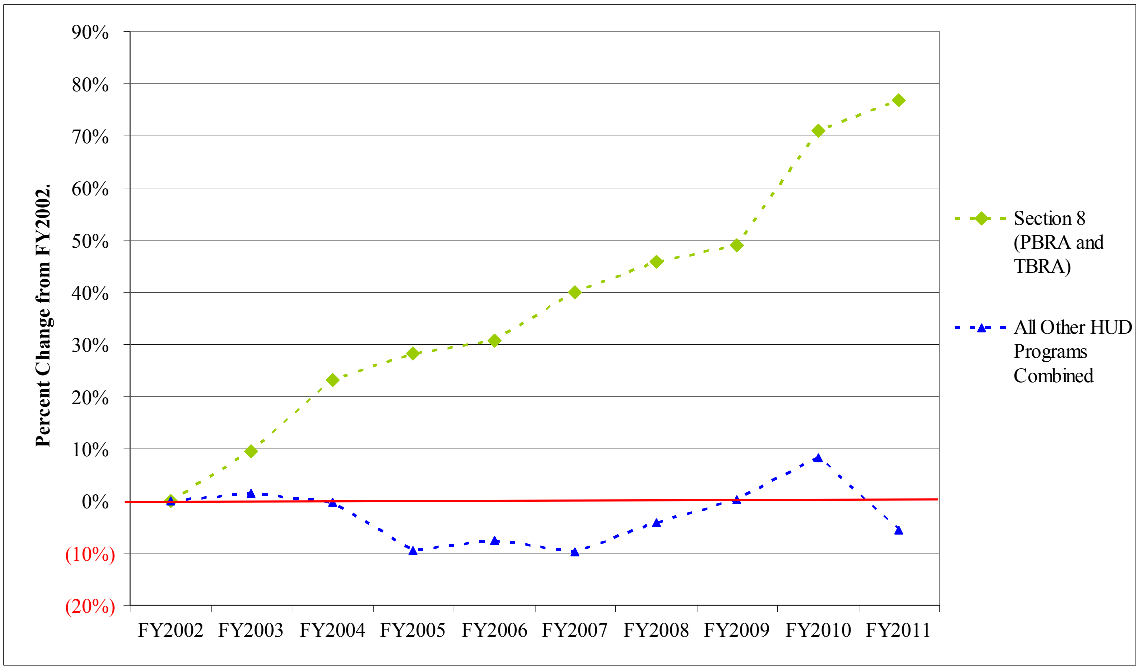
Source: CRS analysis of congressional funding data contained in annual appropriations acts.

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

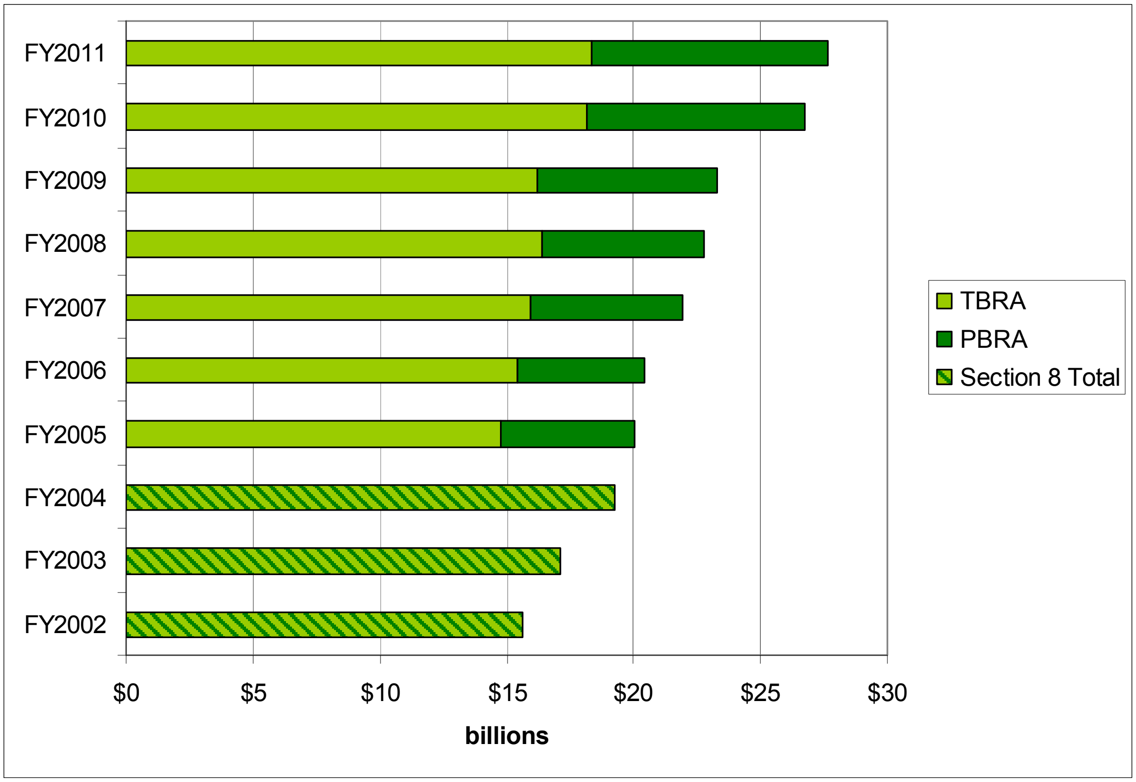


Source: CRS analysis of congressional appropriations documents.

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



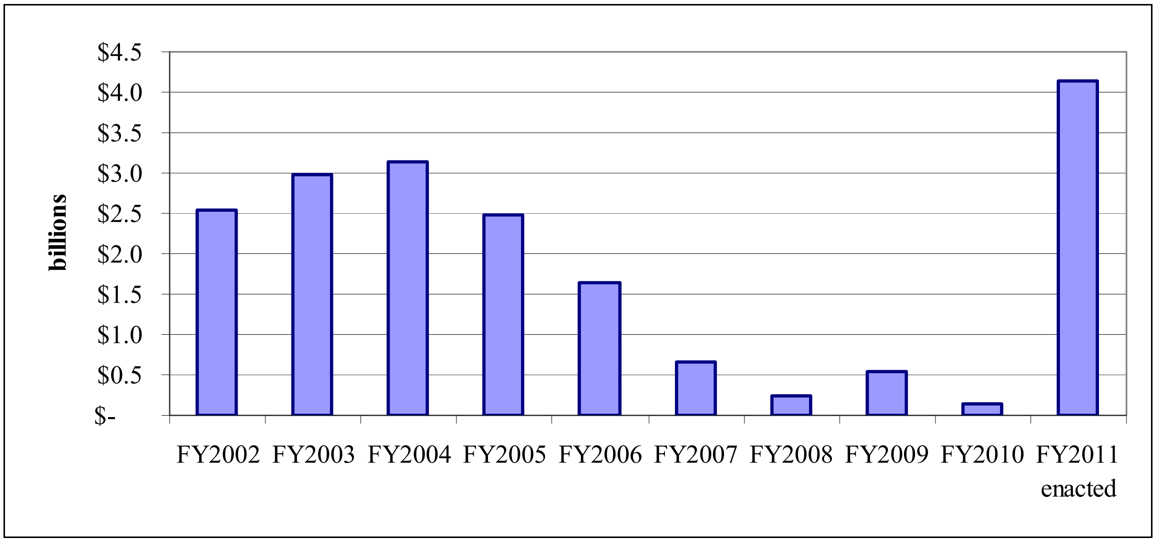
Source: CRS analysis of congressional appropriations documents.

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 $41.1 billion 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

Status of FY2012 Appropriations

Final FY2012 HUD Appropriations, P.L. 112-55

The Consolidated and Further Continuing Appropriations Act of 2012 (H.R. 2112, P.L. 112-55) was signed into law on November 18, 2011. The law provides year-long appropriations for several government agencies, including HUD, and provides continuing appropriations through December 16, 2011, for the remaining government agencies. In terms of funding for HUD, the act provides about $37.3 billion in net funding for HUD, which is about 9% less than was provided in FY2011. However, part of the decrease in net funding is attributable to increases in offsetting receipts and rescission. Looking only at gross appropriations, total funding for HUD's programs was decreased by about 2%.

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.

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).

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

House Action

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

The draft bill was not formally introduced.

President's Budget Request

In February 2011, the President released his budget request for FY2012. It included a request for nearly $47.9 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 totaled over $42 billion.

Table 2 includes an account-by-account comparison of the President's request and the final FY2012 law.

Table 2. Appropriations for HUD, FY2011-FY2012

(in billions of dollars)

Accounts	FY2011 enacted	FY2012 Request	FY2012 House (Draft—See Note)	FY2012 Senate	FY2012 enacted
Appropriations					
Management and Administration	1.315	1.350	1.233	1.350	1.332
Tenant Based Rental Assistance (Section 8 vouchers)	18.371	19.223	18.468	18.872[a]	18.914[a]
Housing Certificate Fund	0.000	0.050	0.050	0.000	0.000
Transforming Rental Assistance	0.000	0.200	0.000	0.000	0.000
Public housing capital fund	2.040	2.405	1.532	1.875	1.875
Public housing operating fund	4.617	3.962	3.862	3.962	3.962
Choice Neighborhoods	0.000	0.250	0.000	0.120	0.120
HOPE VI	0.100[b]	0.000	0.000	0.000	0.000
Native American housing block grants	0.649	0.700	0.649	0.650	0.650
Indian housing loan guarantee	0.007	0.007	0.006	0.007	0.006
Native Hawaiian Block Grant	0.013	0.010	0.000	0.013	0.013
Native Hawaiian loan guarantee	0.001	0.000[c]	0.000	0.000	0.000
Housing, persons with AIDS (HOPWA)	0.334	0.335	0.334	0.330	0.332
Community Development Fund (including CDBG)	3.501	3.781	3.501	3.001	3.308
Sustainable Communities	0.000	0.150	0.000	0.000	0.000
Section 108 loan guarantee; subsidy	0.006	0.000[c]	0.007	0.005	0.006
HOME Investment Partnerships	1.607	1.650	1.200	1.000	1.000
Self-Help Homeownership	0.082	0.050	0.049	0.057	0.054
Homeless Assistance Grants	1.901	2.372	1.901	1.901	1.901
Project Based Rental Assistance (Section 8)	9.265	9.429	9.429	9.419	9.340
Housing for the Elderly	0.399	0.757	0.600	0.370	0.375
Housing for Persons with Disabilities	0.150	0.196	0.196	0.150	0.165
Housing Counseling Assistance	0.000	0.088	0.000	0.060	0.045

Accounts	FY2011 enacted	FY2012 Request	FY2012 House (Draft—See Note)	FY2012 Senate	FY2012 enacted
Manufactured Housing Fees Trust Fund	0.016	0.014	0.000	0.009	0.007
Rental Housing Assistance	0.040	0.016	0.016	0.001	0.001
FHA Expenses	0.215	0.239	0.216	0.207	0.207
GNMA Expenses	0.011	0.030	0.019	0.020	0.020
Research and technology	0.048	0.057	0.048	0.046	0.046
Fair housing activities	0.072	0.072	0.072	0.071	0.071
Office, lead hazard control	0.120	0.140	0.120	0.120	0.120
Working capital fund	0.200	0.243	0.218	0.192	0.199
Inspector General	0.125	0.126	0.115	0.125	0.124
Transformation Initiative-Combating Mortgage Fraud	0.071	0.000	0.050	0.000	0.050
Appropriations Subtotal (including advances provided in current year for subsequent year)	*45.274*	*47.902*	*43.890*	*43.933*	*44.241*
Rescissions					
Housing Certificate Fund	0.000	-0.050	-0.050	-0.200	-0.200
TBRA Prior Year Advance Rescission	0.000	0.000	0.000	-0.750	-0.650
Rental housing assistance rescission	-0.041	-0.007	-0.007	-0.232	-0.232
Rescissions Subtotal	*-0.041*	*-0.057*	*-0.057*	*-1.182*	*-1.082*
Offsetting Collections and Receipts					
Manufactured Housing Fees Trust Fund	-0.007	-0.007	0.000	-0.004	-0.004
Federal Housing Administration (FHA)	-3.386[d]	-5.113	-5.113	-5.177	-5.172
GNMA	-0.729[d]	-0.645	-0.645	-0.651	-0.650
Offsets Subtotal	*-4.122*	*-5.765*	*-5.758*	*-5.832*	*-5.826*
Emergency Funding					
Emergency CDBG	0.000	0.000	0.000	0.400	0.100
Emergency Subtotal	*0.000*	*0.000*	*0.000*	*0.400*	*0.100*
Totals					
Authorized Budget Authority, Excluding Emergency Funding	***41.111***[e]	***42.080***	***38.076***	***36.919***	***37.334***
Available Budget Authority, Excluding Emergency Funding (adjusted for advances)	***41.096***	***42.080***	***38.076***	***36.919***	***37.334***
Authorized Budget Authority, Including Emergency Funding	***41.111***	***42.080***	***38.076***	***37.319***	***37.434***
Available Budget Authority, Including Emergency Funding (adjusted for advances)	***41.096***	***42.080***	***38.076***	***37.319***	***37.434***

Source: Table prepared by CRS based on information available in H.Rept. 112-284 (for FY2011 enacted, FY2012 request, and FY2012 enacted), S.Rept. 112-83 (for FY2012 Senate), and draft documents available on the House Appropriations Committee website (for FY2012 House Draft).

Note: FY2012 House Draft figures are CRS estimates based on the information contained in draft documents posted on the House Appropriations Committee website: http://appropriations.house.gov/UploadedFiles/FY_2012THUD.bill_xml.pdf. Totals shown in this table may not match those in summary documents due to differences in assumptions.

a. This amount includes the advance appropriation provided for FY2013. The advance appropriations provided for FY2012 will be reduced by the amount shown under "TBRA Prior Year Advance Rescission" later in this table. Therefore, the amount available for the TBRA account in FY2012 will be the amount shown here, less the amount of the rescission ($750 million proposed by the Senate, $650 million in the final law).

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

e. Totals shown here differ from totals shown in committee documents by $8 million because of a difference in the treatment of advance appropriations in the tenant-based rental assistance account.

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

Selected Accounts and Key Budget Issues

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 is for the annual renewal of the roughly 2 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.[5] (For more information about the program, see CRS Report RL34002, *Section 8 Housing Choice Voucher Program: Issues and Reform Proposals*, by (name redacted).)

[5] For more information about advance appropriations, see CRS Report RS20441, *Advance Appropriations, Forward Funding, and Advance Funding*, by (name redacted).

Table 3. Detailed Table: Tenant-Based Rental Assistance, FY2011-FY2012

(in billions)

Section 8 Tenant-Based Rental Assistance	FY2011 enacted	FY2012 request	FY2012 House Draft	FY2012 Senate	FY2012 Conf.
Total Provided in Bill (available in CY2012)	**18.379**	**19.223**	**18.468**	**18.872**	**18.914**
Total Available in FY	**18.371**	**19.223**	**18.468**	**18.122**	**18.264**
Current Year Budget Authority	14.379	15.223	14.468	14.872	14.914
Advance Appropriation provided for next FY	4.000	4.000	4.000	4.000	4.000
Advance Appropriation available for current FY	3.992	4.000	4.000	3.250	3.350
Rescission from advance for current FY (reflected above)	*0.000*	*0.000*	*0.000*	*-0.750*	*-0.650*
Details					
Budget Authority for Voucher Renewals	16.669	17.144	17.044	17.144[a]	17.242[a]
Reserve Set-Aside	*0.150*	*0.135*	*0.135*	*0.103*	*0.103*
Administrative fees	1.447	1.648	1.100	1.400	1.350
Set-Aside Fees	*0.050*	*0.050*	*0.050*	*0.050*	*0.050*
Family Self Sufficiency (FSS) Coordinators	0.060	0.060	0.060	0.060	0.060
Tenant Protection Vouchers	0.110	0.075	0.075	0.075	0.075
Veterans Affairs Supported Housing	0.050	0.075	0.075	0.075	0.075
Section 811 Voucher Renewals	0.035	0.114	0.114	0.114	0.112
Homeless Voucher Demonstration	0.000	0.057	0.000	0.005	0.000
Disaster Housing Assistance-Ike and Gustav	0.000	0.050	0.000	0.000	0.000

Source: Table prepared by CRS based on information available in H.Rept. 112-284 (for FY2011 enacted, FY2012 request, and FY2012 enacted), S.Rept. 112-83 (for FY2012 Senate), and draft documents available on the House Appropriations Committee website (for FY2012 House Draft).

a. Amount shown is amount pre-rescission. Post-rescission, the amount available for renewals in CY2012 is $16.592 billion (Senate level would have been $16.394 billion). See discussion following table for more details about the implementation of the rescission.

The President's budget requested over $19.2 billion for Section 8 vouchers in FY2012, which is over $800 million more than was provided in FY2011. The President's budget documents indicated that the amount requested would be sufficient to fund all existing vouchers expected to be in use by families in FY2012. It also requested 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.)

P.L. 112-55 provides $18.9 billion for the tenant-based rental assistance account, of which $17.2 billion is for voucher renewals. While the amount provided for renewals in FY2012 would appear to be higher than the amount provided in FY2011, the law rescinds $650 million from the advance appropriation provided in FY2011 for use in FY2012. As a result, the total amount of funding available for the TBRA account in CY2012—the program is funded and managed in a calendar year cycle—is $18.3 billion, of which $16.6 billion is for voucher renewals. In order to offset the impact of the lower funding level attributable to the rescission, the law directs the Secretary of HUD to reduce the funding allocation to those PHAs with excess balances in their reserve accounts (referred to as net restricted assets, or NRA). The intent of this offset is to require PHAs to spend down their reserves equivalent to the rescission so that total funding for the program in CY2012 is equivalent to the pre-rescission funding level.

This funding mechanism—a rescission from the advance appropriations offset against agency reserves—has been used in prior years, most recently in FY2009. The Senate bill, S. 1596, had proposed a similar strategy, although the rescission would have been $100 million higher. The House draft did not propose such a rescission.

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 (name redacted).) 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.

Operating Fund

In terms of public housing operating funding, the President's FY2012 budget requested a 14% reduction compared to the final FY2011 funding law. The amount requested was less than what would be needed to "fully fund" the amount PHAs would be eligible to receive under the operating fund formula (a proration of about 80%).

The President's budget proposed to supplement the requested funding level by offsetting the funding allocations to certain PHAs (those that have reserves above a certain level). Under the proposal, PHAs would not have received an even proration level of 80%; instead, PHAs with large reserves would receive less than 80% of the funding allocation for which they are eligible, and PHAs without large reserves would receive more than 80%. This proposal would effectively force certain PHAs to supplement their reduced funding level by spending down their reserves. The President's budget requested the authority to offset about $1 billion in funding to PHAs with high reserve levels. Adding together the amount of funding requested and assuming the use of $1 billion in reserves, the overall resources available for the program would be close to 100% of formula eligibility.

The proposed offset was opposed by PHA industry groups, which contended that the reserves are important assets for those PHAs that have them and that the proposal punishes PHAs that have managed their funding well.[6] HUD contended that, in a limited funding environment, this strategy ensures higher funding levels for those PHAs without the reserves necessary to offset funding reductions.[7]

The final FY2012 HUD funding law funds the operating fund at the President's requested level. It includes the requested authority to reduce funding to PHAs with large reserves, but caps that offset at $750 million. The final FY2012 funding law matches what was included in the Senate-passed HUD appropriations bill; the House draft bill had proposed $100 million less than what had been requested by the President and had included a modified version of the offset language.

Capital Fund

In terms of public housing capital funding, the President's FY2012 budget requested $2.4 billion, about a $100 million decrease compared to FY2010 (a 4% decrease). However, the amount requested by the President was a nearly 19% increase compared to the amount provided in FY2011 ($2 billion). 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 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.)

The final FY2012 appropriations law provides less than $1.9 billion for the capital fund. This is the same amount that was proposed by the Senate, but more than $200 million above the amount included in the draft House bill.

HOPE VI/Choice Neighborhoods

As in FY2010 and FY2011, the President's FY2012 budget requested no new funding for HOPE VI; instead, it requested $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 broadens 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.

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

[7] 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.

The final FY2012 HUD appropriations law provides $120 million for Choice Neighborhoods and no funding for HOPE VI. However, the law requires that $80 million of the amount provided be used for public housing.

PHA Compensation

P.L. 112-55, the final FY2012 appropriations law, contains a provision limiting the use of funds provided under the act for PHA staff salaries. Specifically, the act prohibits the use of funding appropriated under the act for the public housing program or Section 8 tenant-based voucher program for any PHA staff salaries above level IV of the federal Executive Schedule. A similar, but broader, provision was included in the House draft bill; no similar provision was included in the Senate bill, or in the President's request.

Administrative Reforms to Rental Assistance Programs

The President's budget included a request for several statutory changes that would affect HUD's rental assistance programs, including the public housing and Section 8 programs. Specifically, HUD 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.[8] HUD estimated that these changes would result in an overall reduction in the cost of HUD rental assistance programs.

The final FY2012 HUD appropriations law did not include these proposed policy changes. The Senate bill had included them, whereas the House draft bill had not.

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

Transforming Rental Assistance

President Obama's FY2012 budget again requested 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 was to 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 proposed that TRA be treated as a demonstration, called the "Rental Assistance Demonstration (RAD)" 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 would test conversion under RAD as a tool for preserving public and other assisted housing. Further, this new form of rental assistance would feature tenant portability, 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.

The final FY2012 appropriations law includes language authorizing a modified version of RAD. It will permit up to 60,000 units of public housing and/or Section 8 moderate rehabilitation properties to convert to a project-based Section 8 contract. The law does not contain any direct funding for the demonstration, but does permit HUD to transfer funds from public housing and Section 8 accounts to cover the costs of the conversion. The enacted version of RAD does not specifically include the portability provisions requested in the budget request. The Senate bill had included a version of RAD; the House draft bill had not.

P.L. 112-55 also included an assisted housing preservation provision which permits the project-basing of certain tenant protection vouchers.

Community Development Block Grants (CDBG)

The Community Development Fund (CDF) account funds the CDBG program and several other set-asides. 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 FY2012 budget recommended a total funding level of $3.781 billion for programs funded under the CDF account. The proposed funding level represented about an 8% increase above the $3.501 billion appropriated for FY2011. The Administration's FY2012 budget also proposed restructuring the CDF account by minimizing, through transfer or termination, activities not directly related by authorizing statute to the CDBG program. The Administration's budget proposed to

- eliminate funding for the Neighborhood Initiative (NI) and Economic Development Initiative (EDI) programs;
- eliminate funding for Section 107 (university programs) activities;
- transfer its Sustainable Communities Initiative (SCI) to a new stand-alone account.

Formula Grants

For FY2012, the Administration requested an 11.5% increase in funding for the CDBG formula component of the CDF account, from $3.296 billion appropriated in FY2011 to $3.668 billion, including grants to insular areas. It also sought to fund CDBG grants for Indian tribes at $65 million, as required by the CDBG program's authorizing statute.

In addition, the Administration requested $25 million for Rural Innovation Grants and $23 million for Guam beyond the amount it would have received as an insular area grantee. Rural Innovation Funds would have been awarded competitively and targeted to rural areas whose populations do not exceed 20,000 persons to support innovative housing and economic development efforts, while assistance to Guam was intended 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 did not include funding for Economic Development Initiatives and Neighborhood Initiatives grants, two programs subject to congressional earmarks. The Administration stated that it opposed earmarking NI and EDI funds.

The House draft bill recommended $3.501 billion for CDF activities, including $3.466 billion for CDBG formula grants to states, local governments, and insular areas; and $35 million for Indian tribes. Although the subcommittee-approved draft bill would have maintained overall CDF appropriations at the FY2011 funding level, the accompanying draft report noted that the report accompanying H.Con.Res. 34, the FY2012 Budget Resolution, recommended eliminating the program on the grounds that it was not a core federal government function. While the report accompanying the THUD draft bill did not eliminate funding for the CDBG program, it did note that "states and local communities can and should undertake more of their community development activities using state and local taxes. Such a shift will provide better transparency and accountability of local officials, who use taxpayer dollars on local community development activities."[9]

The House draft bill would have shifted CDF funding priorities, including eliminating funding for the Administration's Sustainable Communities Initiative, and reducing funding for CDBG Indian Tribes from $64 million appropriated in FY2011 to $35 million. In addition, the bill included a provision that recommended lowering the ceiling on the percentage of funds grantees could use to

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9 U.S. Congress, House Committee on Appropriations, Subcommittee on Transportation, Housing and Urban Development, and Related Agencies, *Department of Transportation, Housing and Urban Development, and Related Agencies*, draft report to accompany un-numbered draft bill, 112th Cong., 1st sess., 2011, p. 85. at http://appropriations.house.gov/UploadedFiles/FY_2012THUDReport.pdf.

cover CDBG administrative expenses from the current 20% to 10% of the grantee's CDBG allocation.

The Senate bill recommended a substantial reduction in the CDF account. Overall CDF funding would have declined to $3.0 billion, excluding $400 million for CDBG supplemental disaster assistance. The proposed $3 billion appropriations level for CDF activities was $500 million less than appropriated for FY2011 or the House subcommittee draft bill, and about $800 million less than requested by the Administration. The Senate bill recommended $2.851 billion for CDBG formula funding.

The final FY2012 HUD appropriations law, P.L. 112-55, appropriated $3.408 billion for CDF activities, and with the exception of $400 million in CDBG disaster assistance, the act appropriated funds only for core CDBG programs, specifically, $60 million for Indian Tribes, and $2.948 billion for formula grants to states, entitlement communities, and insular areas. The $2.948 billion for CDBG formula grants is about 12% less than appropriated in FY2011, 20% less than requested by the President, and 15% less than recommended by the House, but about 3% more than recommended by the Senate.

P.L. 112-55 did not include

- a provision included in the Senate version of H.R. 2112, which would have prohibited the use of federal grants, such as CDBGs, from being used to repay other federal loans, such as CDBG Section 108 loan guarantees; and
- a provision recommended in the House draft bill that would have reduced the percentage of CDBG funds a grantee could use for administrative expenses from 20% to 10%.

The act does include a provision directing the Government Accountability Office (GAO) to undertake a study of the effectiveness of the two block grant programs (CDBG and HOME) administered by HUD's Office of Community Planning and Development (CPD). The study is to be completed and presented to Congress within 180 days following the enactment of P.L. 112-55. The act also directs HUD to submit to Congress, within 120 days following the passage of the act, a progress report on efforts the department has undertaken to improve grantee accountability in the management of programs administered by CPD. In addition, the conference report directs HUD to undertake an analysis of the extent to which CDBG funds are being used to meet the matching fund requirements of other federal programs.

CDBG Disaster Assistance

In addition to the regular CDBG appropriations for FY2012, P.L. 112-55 includes $400 million in CDBG supplemental disaster assistance. Funds are to be disbursed to states and local governments to manage recovery efforts in areas declared disaster by the President in 2011. These supplemental funds are to be used to assist such states and local governments undertake disaster relief and long-term recovery plans, including those related to the restoration of housing, infrastructure, and economic revitalization. Funds may not be used for activities funded by or eligible for reimbursement by the Federal Emergency Management Agency or the Army Corps of Engineers. In order to receive funds, eligible states and local governments must submit disaster recovery plans detailing the use of funds and how planned activities will contribute to disaster recovery efforts. The act allows HUD to waive statutory or regulatory provisions governing the use of CDBG funds, except those related to fair housing, nondiscrimination, labor standards, and environmental review. In seeking a waiver of CDBG program requirements, grantees must explain why such waiver is necessary to the grantee's recovery efforts. Of that amount, $100 million is exempt from discretionary spending limits imposed by the Balanced Budget and Emergency Deficit Control Act of 1985, as amended by the Budget Control Act, P.L. 112-25.[10]

Table 4. Community Development Fund and CDBG, FY2011-FY2012

(in millions)

	FY2011 Enacted	FY2012 Request	FY2012 House Draft	FY2012 Senate	FY2012 Conf.
Community Development Fund	**3,501**	**3,781**	**3,501**	**3,401**	**3,408**
CDBG Formula Grants[a]	3,338	3,668	3,466	2,851	2,948
Indian Tribes	64	65	35	60	60
Guam	0	23	0	0	0
Rural Innovation Funding	0	25	0	0	0
Sustainable Communities	99	[b]	0	90	0
Disaster Funding	0	0	0	400[c]	400[d]

Source: Table prepared by CRS based on information available in H.Rept. 112-284 (for FY2011 enacted, FY2012 request, and FY2012 enacted), S.Rept. 112-83 (for FY2012 Senate), and draft documents available on the House Appropriations Committee website (for FY2012 House Draft).

a. Includes funding for insular areas and funds to be transferred under HUD's Transformation Initiative.

b. The President's budget requested $150 million for this program in a separate account.

c. This amount is designated "emergency" for budget enforcement purposes.

d. $100 million of this amount is designated "emergency" for budget enforcement purposes.

For more information, see CRS Report R41754, *Community Development Block Grants: Funding Issues in the 112th Congress and Recent Funding History*, by (name redacted).

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 proposed restructuring the program and doubling its loan commitment ceiling from $250 million in FY2010 to $500 million in FY2012. The

[10] For additional information on the spending caps and exemptions under the Budget Control Act, see CRS Report R41965, *The Budget Control Act of 2011*, by (name redacted), (name redacted), and (name redacted).

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 proposed 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.

The House draft bill recommended an appropriation of $6.8 million in credit subsidies in support of $275 million in loan guarantee commitments. The Senate bill recommended $4.960 million in credit subsidies in support of $200 million in loan guarantee commitments. Among the amendments approved for inclusion in the bill was S.Amdt. 796. Proposed by Senator Coburn, the amendment would have prohibited the use of grants made available under the bill from being used to repay any other federal loans. This amendment has implications for the CDBG program and its companion Section 108 loan guarantee program. Statutory authority governing the Section 108 loan guarantee program allows CDBG funds to be used as collateral to secure and repay Section 108 loan guarantees in case of default. In order to avoid default on Section 108 loan guarantees, states and communities have used CDBG funds to cover revenue shortfalls associated with the repayment of bonds used to finance Section 108 supported projects.

For the third year in a row, the Administration failed to win congressional support for its proposal to convert Section 108 loan guarantees to a fee-based program. P.L. 112-55 maintains the program's current structure while appropriating $5.952 million in credit subsidies in support of the $240 million in Section 108 loan guarantee commitments. The act included an additional provision that prohibits a state from diverting proceeds from sale of notes backed by Section 108 loan guarantees to any other community other than the local government that initially sought and received the loan guarantee commitment.[11] It did not include the provision included in the Senate bill that would have prohibited federal funds, such as CDBG, from being used to repay other federal assistance, such as Section 108 loan guarantees.

Sustainable Communities

The Administration requested $150 million to fund its multipronged Sustainable Communities Initiative (SCI) in the FY2012 budget. This was 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 proposed funding the SCI as a separate appropriation. The Administration's FY2012 request would have been used to fund the program's three components:

- **Regional Integrated Planning Grants.** The Administration requested $100 million that would have been 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

[11] P.L. 112-55, Division C, §221.

with the Department of Transportation (DOT), the Environmental Protection Agency (EPA), and other federal agencies.

- **Community Challenge Grants (CCGs).** The Administration requested $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 requested $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 were to be administered through the recently created Office of Sustainable Housing and Communities within HUD.

The House draft bill did not include funding for the Administration's SCI, while the Senate bill recommended $90 million for the SCI activities, which was $60 million less than the amount requested by the President and $9 million less than appropriated for FY2011. P.L. 112-55 did not include a specific appropriation for SCI activities. However, the conference report accompanying H.R. 2112 (P.L. 112-55) noted that such activities could be carried out with CDBG and the agency's Transformation Initiative funds.[12]

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).[13] 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.[14]

The President's FY2012 proposed budget requested $1.65 billion for the HOME program. This represented an increase of $43 million from the enacted FY2011 funding level of $1.607 billion, but a reduction of $175 million from the enacted FY2010 funding level of $1.825 billion.

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[12] U.S. Congress, House Appropriations Conference Committee, *Agriculture, Rural Development, Food and Drug Administration, Related Agencies Programs for the Fiscal Year Ending September 30, 2012, and for Other Purposes*, Report to accompany H.R. 2112, 112th Cong., 1st sess., November 14, 2011, H.Rept. 112-284 (Washington: GPO, 2011), p. 317.

[13] For more information about the HOME Investment Partnerships Program, see CRS Report R40118, *An Overview of the HOME Investment Partnerships Program*, by (name redacted).

[14] 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 House draft bill included $1.2 billion for the HOME program, $450 million less than the President's budget request and $400 million less than the enacted FY2011 funding level. The Senate bill included $1 billion for the HOME program, $650 million below the President's budget request and $607 million below the FY2011 enacted level. The Senate bill also included a number of provisions relating to the expenditure of HOME funds.

The proposed reductions, and the additional provisions in the Senate bill, were partially in response to concerns raised in an article in the *Washington Post* related to the use of HOME funds.[15] The article alleged that some HOME funds used for rental housing developments had been mismanaged by participating jurisdictions, and that HUD did not provide sufficient oversight of participating jurisdictions' use of funds.[16] A 2009 HUD Office of the Inspector General (OIG) report also stated that HUD should improve its oversight of HOME funds.[17] HUD maintains that its oversight of the program is adequate, and notes that block grant programs by design delegate much of the responsibility of overseeing the expenditure of funds to the jurisdictions that participate in the program.[18]

P.L. 112-55 includes $1 billion for the HOME program, the same amount as the Senate bill, along with the provisions related to the expenditure of HOME funds.

Self-Help and Assisted Homeownership Opportunity Program (SHOP)

The Self-Help and Assisted Homeownership Opportunity Program account provides funds for the Self-Help Homeownership Opportunity Program (SHOP), as well as set-asides for capacity building and for the Housing Assistance Council. SHOP provides funding to eligible nonprofits, such as Habitat for Humanity, to use for acquisition and infrastructure improvement costs related to sweat equity and volunteer-based homeownership programs that benefit low-income families. The President's FY2012 budget proposed eliminating funding for SHOP and funding capacity building in its own account. HUD's FY2012 Congressional Budget Justification noted that the activities funded under SHOP are also activities on which states and participating jurisdictions can choose to use their HOME funds.[19]

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[15] U.S. Congress, Senate Committee on Appropriations, *Transportation and Housing and Urban Development, and Related Agencies Appropriations Bill, 2012*, report to accompany S. 1596, 112th Cong., 1st sess., September 21, 2011, S.Rept. 112-83 (Washington: GPO, 2011), p. 124.

[16] Cenziper, Debbie, and Jonathan Mummolo, "A trail of stalled or abandoned HUD projects," *Washington Post*, May 14, 2011. See U.S. Congress, Senate Committee on Appropriations, *Transportation and Housing and Urban Development, and Related Agencies Appropriations Bill, 2012*, report to accompany S. 1596, 112th Cong., 1st sess., September 21, 2011, S.Rept. 112-83 (Washington: GPO, 2011), p. 124.

[17] McKay, James D., Regional Inspector General for Audit, Atlanta Region, *HUD Lacked Adequate Controls to Ensure the Timely Commitment and Expenditure of HOME Funds*, U.S. Department of Housing and Urban Development, Office of the Inspector General, Audit Report Number 2009-AT-0001, September 28, 2009.

[18] U.S. Department of Housing and Urban Development, "Setting the Record Straight: What the Washington Post Got Wrong About the HOME Program," The HUDdle: U.S. Department of Housing and Urban Development's Official Blog, May 19, 2011, http://blog.hud.gov/2011/05/19/setting-record-straight-washington-post-wrong-home-program/.

[19] U.S. Department of Housing and Urban Development*, Fiscal Year 2012 Budget Justifications for Estimates*, page X-1, http://portal.hud.gov/hudportal/documents/huddoc?id=SHOP_2012.pdf.

The House draft bill and the Senate bill both continued to provide funding for SHOP, as did the final enacted law. The House draft bill provided $10.9 million for SHOP, a reduction of nearly $16 million from the FY2011 enacted level of $27 million. The Senate bill included $17 million for SHOP, a decrease of $10 million from FY2011 enacted level. The House draft bill funded capacity building in its own account, while the Senate bill continued to fund capacity building within the SHOP account.

P.L. 112-55 provides $13.5 million for SHOP, and continues to provide funding for capacity building within the SHOP account.

Homelessness Assistance

The primary source of federal funding for housing for homeless individuals and families is the HUD Homeless Assistance Grants, which were most recently reauthorized in the 111th Congress through the Homeless Emergency Assistance and Rapid Transition to Housing (HEARTH) 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. In addition, rural communities will have the option of applying for their CoC allocation separately, through a new Rural Housing Stability (RHS) grant 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.

For FY2012, Congress provided the same amount for the Homeless Assistance Grants that was appropriated in FY2011—$1.9 billion—and less than the amount proposed in the President's budget for FY2012 ($2.4 billion). The language in P.L. 112-55 specifies that the funds appropriated are for the new programs authorized by the HEARTH Act. Not less than $250 million is to be used for the ESG program (an increase from $225 million in FY2011), and nearly $1.6 billion is to be used for the CoC and RHS grants. The conference report accompanying P.L. 112-55 (H.Rept. 112-284) noted concern that HUD had not yet implemented the new HEARTH Act programs, and directed that HUD "publish at least interim guidelines for the Emergency Solutions Grants and Continuum of Care this fiscal year and to implement the new grant programs as soon as possible, so that the updated policies and practices in HEARTH can begin to govern the delivery of homeless assistance funding."

While draft regulations for the ESG program have been released,[20] HUD has yet to release regulations regarding the CoC program.

Additional funding for homeless veterans in FY2012 is also 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, providing total funding sufficient to support more than 30,000 vouchers for one year ($275 million from FY2008 through FY2011). In P.L. 112-55, Congress appropriated another $75 million for Section 8 vouchers for homeless veterans, which is expected to support an additional 10,000 vouchers. Each of the funding

[20] U.S. Department of Housing and Urban Development, Homeless Emergency Assistance and Rapid Transition to Housing: Emergency Solutions Grants Program and Consolidated Plan Conforming Amendments, October 26, 2011, http://hudhre.info/documents/HEARTH_ESGInterimRule&ConPlanConformingAmendments.pdf.

proposals for FY2012—the House draft bill, S. 1596, and the President's budget—had also proposed funding these vouchers at $75 million. In addition, for the second year in a row, the President's budget would have funded a demonstration program in which HUD would have collaborated 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 proposed $57 million for the demonstration program, and while the Senate bill would have included $5 million for this proposal, neither the House draft bill nor P.L. 112-55 included the demonstration.

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 included a $165 million increase in funding for project-based rental assistance. The amount requested included funding to renew all contracts that are now in need of new appropriations (approximately 83% of all contracts, according to HUD's budget documents). The final appropriations law for FY2012 funds the account about $100 million below the requested level. The conference report notes that the level provided reflects revised estimates of need provided by HUD. The House draft bill had proposed to fund the account at the requested level, and the Senate bill had proposed to fund the account just below the requested amount.

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.[21] HUD capital grants have funded more than 106,000 units of Section 202 housing and more than 30,000 units of Section 811 housing.[22] In addition, the Section

[21] 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 (name redacted). For more information about the Section 811 program, see CRS Report RL34728, *Section 811 and Other HUD Housing Programs for Persons with Disabilities*, by (name redacted).

[22] 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 (continued...)

811 program has historically provided funding for tenant-based vouchers for persons with disabilities. Currently, approximately 14,811 vouchers are funded.[23]

Section 202

The Housing for the Elderly budget account includes funding for not only the Section 202 program, but also funds for Service Coordinators and the Assisted Living Conversion Program. For FY2012, Congress reduced funding for Section 202 and these related programs by approximately $24 million, from $399 million appropriated in FY2011, to $375 million. The reduction is even greater when compared to program appropriations in the years preceding FY2011. From FY2001 through FY2010, appropriations ranged from $722 million to $825 million.

Within the FY2012 Housing for the Elderly appropriation, $91 million is reserved for Service Coordinators and $25 million is set aside for the Assisted Living Conversion Program. This leaves approximately $232 million for the Section 202 program, to be used to renew existing rental assistance contracts and potentially to provide rental assistance to tenants who have not previously received it.[24] Unlike previous years' appropriations for Section 202, there is not sufficient funding to support the construction of new housing units. Prior to enactment of P.L. 112-55, proposals to fund Section 202 in FY2012 ranged from about $370 million in the Senate bill (S. 1596) to $600 million in the House draft bill, and $747 million in the Administration's proposed budget.

Section 811

For FY2012, Congress appropriated $165 million for Section 811, which is $15 million more than the appropriation of $150 million in FY2011. However, in order to determine total funding for housing units authorized through the Section 811 program, it is also necessary to look at the Section 8 tenant-based rental assistance account. Prior to FY2011, the Section 811 account funded both project-based and tenant-based rental assistance, but Congress has since begun funding the renewal of Section 811 tenant-based vouchers through the Section 8 tenant-based rental assistance account.[25] In FY2012, the total provided for Section 811 through these two accounts increased by approximately $92 million compared to FY2011. In FY2011, Congress appropriated $150 million to the Section 811 account, $118 million for capital grants and project rental assistance, and $32 million to renew tenant-based rental assistance vouchers. Another

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(...continued)

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.

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

[24] This latter category of rental assistance is "Senior Preservation Rental Assistance Contracts" (or "Preservation PRAC"), a new form of assistance authorized by the Section 202 Supportive Housing for the Elderly Act (P.L. 111-372). For more information about Preservation PRAC, see CRS Report RL33508, *Section 202 and Other HUD Rental Housing Programs for Low-Income Elderly Residents*, by (name redacted).

[25] This shift was consistent with language that was enacted in the Frank Melville Supportive Housing Investment Act (P.L. 111-374), which authorized appropriations to Section 8 sufficient to support the conversion of existing Section 811 vouchers to the Section 8 account.

$35 million was appropriated to the Section 8 account to renew Section 811 vouchers. In FY2012, P.L. 112-55 included $165 million for the Section 811 account and $112 million for the renewal of Section 811 vouchers through the Section 8 account, for a total of $277 million.

The $165 million appropriated in FY2012 for Section 811 is to be used to renew project-based rental assistance contracts. In addition, these funds may be used for a new rental assistance program whereby state housing finance agencies may make rental assistance available in conjunction with other forms of subsidized housing (e.g., housing supported through Low Income Housing Tax Credits).[26] While no funds are available to support the construction or rehabilitation of new units, it is thought that without the need for Section 811 capital grants to construct housing, more program funds may be available to fund rental assistance in other assisted housing developments.

Prior to enactment of P.L. 112-55, the Senate had proposed to provide a total of $263 million for Section 811 units ($150 million through the Section 811 account and $113 million through the Section 8 account), and the House draft bill proposed the same amount as the President's budget request, a total of $310 million ($196 million through the Section 811 account and $114 million through the Section 8 account). The House draft bill and the President's request would have included funds to support the creation of new Section 811 units.

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. 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.[27] (Congress did continue to fund the NeighborWorks counseling program in FY2011 at its FY2010 level of $65 million.) 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

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[26] For more information about this new program, see CRS Report RL34728, *Section 811 and Other HUD Housing Programs for Persons with Disabilities*, by (name redacted).

[27] 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.

NeighborWorks funds, which are limited to foreclosure counseling. Housing advocates and some Members of Congress 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.[28]

The President's FY2012 budget, which came out prior to the enactment of the final FY2011 appropriations law, requested $88 million for HUD's housing counseling program. The House draft bill included no funds for HUD's housing counseling program, although the draft committee report accompanying the draft bill directed HUD to provide a briefing along with its FY2013 budget submission addressing questions about its administration of the program.[29] The Senate bill proposed $60 million, specifying that the funds must be awarded by HUD within 120 days. P.L. 112-55 includes $45 million for housing counseling, and, like the Senate bill, specifies that the funds must be awarded within 120 days of the enactment of the act.

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 (name redacted).

NeighborWorks America

As previously mentioned, in recent years additional housing counseling funds have been provided to NeighborWorks America specifically for foreclosure mitigation counseling through the National Foreclosure Mitigation Counseling Program (NFMCP). NeighborWorks is a government-chartered, nonprofit corporation with a national network of affiliated organizations that engage in a variety of community reinvestment activities, such as generating investment and providing training and technical assistance related to affordable housing. The organization began operating under the name NeighborWorks America in 2005, although its legal name remains the Neighborhood Reinvestment Corporation. NeighborWorks receives a regular annual appropriation each year under the name Neighborhood Reinvestment Corporation. This appropriation is separate from the NFMCP funding, which is provided in addition to the regular annual appropriation to NeighborWorks. Although NeighborWorks is not part of HUD, it is usually funded as a related agency in the annual HUD appropriations laws.

For FY2012, P.L. 112-55 provides $80 million for the NFMCP, which is $15 million more than was provided in FY2011.

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

[28] 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=press_release&id=1560.

[29] See page 96 of the draft report at http://appropriations.house.gov/UploadedFiles/FY_2012THUDReport.pdf.

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.[30]

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.[31] 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.[32] The Administration estimated that the Purchase and

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[30] For more information on the programs in the MMI Fund, see CRS Report RS20530, *FHA-Insured Home Loans: An Overview*, by (name redacted) and (name redacted); and CRS Report RL33843, *Reverse Mortgages: Background and Issues*, by (name redacted).

[31] 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.

[32] 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*
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Refinance risk category of the MMI Fund would have a negative subsidy rate of -2.16% for FY2012. The Administration further estimated that the Purchase and Refinance risk category of the MMI Fund would therefore generate about $4.7 billion in negative credit subsidy, meaning that it would make money for the government.[33]

The Administration estimated that the MMI HECM risk category would have a negative credit subsidy rate of -1.52% and would generate about $300 million in negative credit subsidy in FY2012. The MMI Fund in total, then, would be 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 increased in the past few years. FHA estimated that it insured nearly 40% of home purchase loans in 2010, compared to 4.5% in FY2005.[34] 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.[35] 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%. The capital reserve ratio remained under 2% in subsequent years, falling to 0.24% in FY2011.[36]

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

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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 (name redacted).

[33] 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.

[34] 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.

[35] 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.

[36] U.S. Department of Housing and Urban Development, *Annual Report to Congress, Fiscal Year 2011 Financial Status, FHA Mutual Mortgage Insurance Fund*, November 15, 2011, page 33, http://portal.hud.gov/hudportal/documents/huddoc?id=FHAMMIFundAnnRptFY2011.pdf.

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.[37] The increased premium is expected to further strengthen FHA's capital reserves.

FHA Loan Limits

P.L. 112-55 included a provision reinstating recently expired higher loan limits for FHA in some areas. By statute, FHA can only insure mortgages up to a certain principal amount. These loan limits are based on area median home prices, and therefore vary by area. There is also a national floor and a national ceiling that affect loan limits in low-cost and high-cost areas, respectively, and these are calculated as percentages of the national conforming loan limit for Fannie Mae and Freddie Mac.

In early 2008, the Economic Stimulus Act of 2008 (ESA) temporarily raised the FHA loan limits in high-cost areas and some other areas in response to the housing downturn and tighter credit availability. Specifically, ESA specified that the FHA loan limit would be 125% of area median home prices in most areas, with a high-cost area limit of 175% of the GSE conforming loan limit (a ceiling of $729,750). The Housing and Economic Recovery Act of 2008 (P.L. 110-289) established new statutory limits at 115% of area median home prices in most areas, with a high-cost area limit of 150% of the GSE conforming loan limit (a ceiling of $625,500). These limits were intended to go into effect beginning in 2009; however, the American Recovery and Reinvestment Act of 2009 (ARRA; P.L. 111-5) specified that the loan limits in a given area would be set at the higher of the ESA or the HERA limits through 2009.

The provision setting the FHA loan limits at the higher of the ESA limits or the HERA limits in a given area was extended a number of times until the last extension expired at the end of FY2011, at which time the loan limits fell to HERA levels. However, P.L. 112-55 reinstated the higher FHA loan limits through December 31, 2013.

Not all areas are affected by a change in the FHA loan limits from those specified in HERA to those specified in ESA.[38] The change affects high-cost areas, since the high-cost area ceiling is lower under HERA than under ESA. The change also affects some areas that are not high-cost, depending on the trajectory of home prices in those areas, since the loan limit under ESA is 125% of 2007 area median home prices while the loan limit under HERA is 115% of more recent area median home prices.[39]

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[37] 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.

[38] For a discussion of areas that may be affected by a change in the loan limits, see U.S. Department of Housing and Urban Development, *Potential Changes to FHA Single-Family Loan Limits beginning October 1, 2011, from Implementation of the Housing and Economic Recovery Act of 2008: A Market Analysis Brief*, May 26, 2011, http://portal.hud.gov/hudportal/documents/huddoc?id=fhaloanlmhera.pdf.

[39] Current HERA limits are calculated using the most recent home price data; however, the first HERA limits were calculated using 2008 home price data, and FHA has followed a policy of not allowing the HERA limits to fall relative to earlier HERA limits in a given area. Therefore, the HERA limits in a given area could be based on home price data from 2008 or more recent years.

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, as established under the BCA, is less than the amount that was available in FY2011, but is more than the amount that was approved under the House budget resolution (discussed in the next section of this Appendix).

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 was charged with finding at least an additional $1.2 trillion in deficit savings over a 10-year period. Since the Joint Select Committee on Deficit Reduction failed to complete its mandate, under the terms of the BCA, 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, barring additional action by Congress.[40]

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 of the subcommittees are generally referred to as 302(b) 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.

[40] For more information about the BCA, see CRS Report R41965, *The Budget Control Act of 2011*, by (name redacted), (name redacted), and (name redacted).

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.[41] The THUD subcommittee received an allocation of $47.7 billion in FY2012, which was $8.7 billion (or 15%) lower than the allocation it received in FY2011 ($56.4 billion).

In addition to setting overall spending levels, H.Con.Res. 34 contains another provision that could have implications for the THUD subcommittee and potentially for HUD's budget. Section 408 directs the Congressional Budget Office (CBO), 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.[42]

While the Senate Budget Committee did not consider an FY2012 budget resolution,[43] 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 required 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.[44] Under these terms, the Senate established an allocation of $57.3 billion for THUD for FY2012, which is nearly $1 billion higher than the House allocation under H.Con.Res. 34.

Since 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, for the purposes of conferencing on the final FY2012 THUD appropriations law (P.L. 112-55), the higher Senate allocation for THUD was used.

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

[42] 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.

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

[44] For more information about the BCA, see CRS Report R41965, *The Budget Control Act of 2011*, by (name redacted), (name redacted), and (name redacted).

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