

GAO

Resources, Community, and Economic  
Development Division

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# Housing and Community Development Issue Area Plan

## Fiscal Years 1996-98



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# Foreword

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As the investigative arm of Congress and the nation's auditor, the General Accounting Office is charged with following the federal dollar wherever it goes. Reflecting stringent standards of objectivity and independence, GAO's audits, evaluations, and investigations promote a more efficient and cost-effective government; expose fraud, waste, abuse, and mismanagement in federal programs; help Congress target budget reductions; assess financial and information management; and alert Congress to developing trends that may have significant fiscal or budgetary consequences. In fulfilling its responsibilities, GAO performs original research and uses hundreds of databases or creates its own to compile and analyze information.

To ensure that GAO's resources are directed toward the most important issues facing Congress, each of GAO's 35 issue areas develops a strategic plan that describes its key issues and their significance; the objectives and focus of its work; and the planned major job starts. Each issue area relies heavily on input from congressional committees, agency officials, and subject-matter experts in developing its strategic plan.

The Housing and Community Development issue area has audit responsibility for over \$1 trillion of financial services and assistance programs that are aimed at providing decent, affordable housing and healthy communities, including assistance to communities adversely affected by disasters. Agencies primarily responsible for these programs include the Department of Housing and Urban Development (HUD) and its Federal Housing Administration (FHA); the Department of Veterans Affairs (VA); the Rural Housing and Community Development Services (RHCDS); the Small Business Administration (SBA); and the Federal Emergency Management Agency (FEMA). HUD provides the bulk of assistance by insuring or guaranteeing mortgage financing through its \$497 billion FHA loan portfolio; guaranteeing, through the Government National Mortgage Association, about \$485 billion in outstanding mortgage-backed securities; annually providing almost \$25 billion in rental subsidies and for the operation of housing units for about 4.7 million lower-income households; and annually providing \$5 billion for community assistance through its Community Development Block Grant program.

In addition, assistance is provided through SBA's \$30 billion business loan portfolio; VA's \$174 billion in guarantees on veterans' home loans; and RHCDS' assistance to rural residents, totalling \$30 billion. Finally, an average of \$7 billion (in constant 1993 dollars) was obligated annually between 1977 and 1993 to prepare for and respond to disasters.

After decades of costly housing and community development assistance, the delivery of federal services is being reexamined. Our work assists this examination by focusing on the following principal issues in the housing and community development area:

- restructuring federal housing and community development agencies to improve service delivery, eliminate duplication, and produce long-term cost savings;
- improving federal oversight of housing and community development services to reduce fraud, waste, abuse, and mismanagement;
- reducing the federal government's financial risk in its mortgage assistance programs;
- fostering self-sufficiency among low-income people while meeting budgetary constraints;
- promoting the economic and social development of communities;
- improving the cost-effectiveness of programs that promote small and minority business development; and
- controlling federal disaster assistance costs.

In the following pages, we describe our key planned work on these pivotal issues. Because events may significantly affect this plan, our planning process allows for updating this plan and responding quickly to emerging issues. If you have any questions or suggestions, please call Jim Wells, Associate Director, at (202) 512-7100, or me at (202) 512-7631.



Judy A. England-Joseph  
Director  
Housing and Community Development Issues

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# Table I: Key Issues

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| Issue  | Significance   |
|--|--|
| <b>Federal housing and community development agencies:</b> What changes must the federal government make to improve delivery of services, eliminate duplication, and produce long-term cost savings? | The current focus on “restructuring” and “reinventing” agency missions and operations has affected HUD, RHCDS, VA, SBA, FEMA, and other agencies involved in housing and community development assistance. These agencies are proposing to restructure—including downsizing—their organizations and are developing options to improve delivery of federal services with significant cost savings. HUD, for instance, projects its reinvention will take 6 to 8 years. The 104th Congress has made HUD’s restructuring a priority.                    |
| <b>Federal management:</b> What changes must federal agencies make to oversee housing and community development services and reduce fraud, waste, abuse, and mismanagement?                          | Congress and the administration have mandated that federal agencies, including HUD, RHCDS, and VA, improve their accountability for the effective and efficient use of budgetary resources by correcting deficiencies in management, accounting, and information systems. GAO has designated HUD as a high-risk area because of its long-standing departmentwide deficiencies.   |
| <b>Mortgage financing:</b> How can the federal government minimize financial risks in mortgage assistance programs while meeting affordable housing needs?   | FHA, VA, and RHCDS underwrite mortgage credit for purchases of residential and rental properties that are riskier than purchases made in the conventional market. These programs support nearly \$500 billion in outstanding mortgage loans; HUD’s Government National Mortgage Association (GNMA) guarantees timely payment to investors on \$485 billion of securities backed by these mortgages. These agencies need to continue working to limit losses, improve delivery of home mortgage and rental housing assistance, and improve oversight. |
| <b>Low-income housing:</b> How can federal low-income housing programs meet budgetary constraints while effectively serving low-income people and promoting self-sufficiency?                        | Housing the nation’s low-income population within existing budget constraints has sparked considerable debate. Since 1977, real outlays for federal housing assistance have tripled. Accordingly, policymakers must find more cost-effective methods to house low-income people, better ways for federal housing programs to promote self-sufficiency, and the best management practices for assisted housing.   |

**Table I: Key Issues**

| <b>Objectives</b>  | <b>Focus of work</b>   |
|--|--|
| <p>—Analyze the restructuring proposals, including HUD’s “reinvolution blueprint.”</p> <p>—Assess the alternatives for restructuring FHA, including making it a government-owned corporation.</p> <p>—Assess the effects of reinvention proposals on program costs and customers.</p> <p>—Assess the feasibility of transforming HUD’s current programs, such as assisted housing, into performance-based funds.</p> | <p>—Analysis of HUD’s, other agencies’, and congressional reinvention proposals affecting housing and community development programs</p> <p>—Analysis of the Rural Housing Act of 1949 to determine ways to improve and streamline housing assistance to rural residents</p> <p>—Review of the proposals to restructure HUD’s multifamily housing and FHA, including the proposals’ effects on FHA’s customers and financial position</p> <p>—Review of the efforts to determine the oversight necessary at the federal level and administrative responsibilities that may be transferred to state and local governments as a result of consolidating programs</p> |
| <p>—Identify and target spending reductions to decrease the federal deficit.</p> <p>— Monitor HUD’s and FEMA’s actions to correct long-standing departmentwide management deficiencies, including financial and information systems.</p> <p>—Recommend ways to improve mission focus, program effectiveness, and design of controls to reduce fraud, waste, abuse, and mismanagement in agency operations.</p>       | <p>—Potential savings in HUD’s budget</p> <p>—Implementation of initiatives at HUD to correct long-term management deficiencies</p> <p>—Improvement of financial and information systems at HUD and FEMA</p> <p>—Review of agencies’ efforts to develop better performance measures</p>  |
| <p>—Identify options for mortgage financing programs to limit the federal government’s exposure to losses.</p> <p>—Recommend ways to improve controls over property disposition.</p> <p>—Analyze alternatives to provide mortgage financing options to urban and rural residents.</p>  | <p>—Improvement of the financial position of FHA’s mortgage assistance programs for single- and multifamily properties</p> <p>—Reduction of losses through better management over property disposition activities</p> <p>—Reduction of risks through changes in FHA’s and RHCDs’ programs</p>  |
| <p>—Identify ways to better manage and maintain urban and rural federally-assisted multifamily properties.</p> <p>—Evaluate ways to improve the cost-effectiveness of housing subsidies.</p> <p>—Evaluate options to better link housing and human services to encourage self-sufficiency.</p>   | <p>—Improvements in the federal oversight, regulatory framework, and budgeting practices of assisted housing</p> <p>—Analysis of the cost and programmatic implications of project- versus tenant-based housing</p> <p>—Integration of federal housing programs with social service programs to encourage self-sufficiency among low-income households</p>   |

**Table I: Key Issues**

| Issue  | Significance   |
|--|--|
| <b>Community development:</b> What roles do HUD and other federal agencies play in promoting the economic and social viability of communities and their residents and with what level of capacity and types of performance measures? | Over a dozen federal agencies provide community development assistance. Congress is currently debating whether to consolidate some of these programs into performance-based funds or block grants to improve effectiveness and efficiency. Consolidation must also factor in performance measures that ensure appropriate use of funds, safeguards against duplicate federal programs, and the effects of the loss of needed services to communities.  |
| <b>Small and minority-owned business development:</b> Do existing programs meet clearly defined goals; what benefits have been accrued; and what is the most cost-effective way to deliver these services?                           | Although several SBA loan, technical assistance, grant, and equity investment programs are directed at establishing or preserving small and/or minority-owned businesses, only about 7 percent of all small business lending is SBA-backed. Other agencies also provide similar services that appear to overlap SBA's goals. Federal purchasing requirements annually direct billions of dollars to support small business development. Congress has raised concerns about the benefits of these programs, and court cases have challenged minority set-asides and mandates. |
| <b>Disaster assistance:</b> How can the federal government reduce expenditures for disaster relief while improving service delivery?   | Twenty-six federal agencies are involved in disaster relief and recovery, which has totaled more than \$17 billion since 1989. Policymakers face simultaneous needs to encourage choices that lessen future federal costs, minimize federal spending, eliminate duplicative efforts, and promote economic growth. The 103rd Congress established bipartisan Task Forces on Disasters, whose reports are expected to spark a number of legislative proposals during current and future congressional sessions.  |

**Table I: Key Issues**

| Objectives  | Focus of work  |
|---|--|
| <p>—Identify any overlap among programs that support community development and recommend ways to streamline them.</p> <p>—Identify options to integrate social, economic, and housing programs to maximize service delivery.</p> <p>—Assess performance indicators used to rate existing programs and recommend other indicators to improve oversight of these programs.</p>  | <p>—Economic development in distressed urban areas and overlap and differences among community development programs across agencies</p> <p>—The effects of performance-based funds and block-grant consolidation on community development programs</p> <p>—The integration of social, economic, and housing programs</p> <p>—The impact of fund allocation formulas, including equitability, and standards for consistent performance measures</p> |
| <p>—Determine what market needs SBA serves and whether those needs could be met in other ways.</p> <p>—Measure the extent to which existing programs have met, or contributed to, specified goals to promote small and minority-owned business development and the effectiveness of technical assistance and guidance.</p> <p>—Identify the most cost-effective ways to assist small and minority-owned businesses.</p> | <p>—Markets and sources serving these businesses and approaches for assisting them</p> <p>—Program goals and achievement of intended outcomes</p> <p>—Overlaps and gaps among programs providing support to small and minority-owned businesses among agencies</p>   |
| <p>—Identify potential inefficiencies arising from having 26 federal agencies involved in disaster relief.</p> <p>—Recommend options to reduce the federal government’s exposure to claims for disaster relief and recovery.</p>  | <p>—Duplication and lack of coordination in federal programs helping communities recover from recent large disasters</p> <p>—Options to reduce costs, such as revising the eligibility criteria for federal assistance, providing incentives to mitigate disasters, and increasing the use of insurance mechanisms</p>   |

# Table II: Planned Major Work

| Issue   | Planned major job starts  |
|---|---|
| <b>Federal housing and community development agencies</b> | <ul style="list-style-type: none"> <li>—Assess HUD’s reinvention proposals, including transformation of FHA into a government-owned corporation.</li> <li>—Evaluate existing rural housing programs to determine whether they meet current needs.</li> <li>—Evaluate options to restructure HUD’s multifamily housing program.</li> </ul>   |
| <b>Federal management</b>                                 | <ul style="list-style-type: none"> <li>—Analyze HUD’s \$26-billion budget to identify budgetary savings.</li> <li>—Assess implementation of HUD’s management and information resource management reforms, including their potential for adopting leading industry practices.</li> <li>—Analyze changes needed in information management systems for a restructured HUD.</li> <li>—Review information management and systems support for FEMA’s disaster assistance programs.</li> </ul> |
| <b>Mortgage financing</b>                                 | <ul style="list-style-type: none"> <li>—Review economic net worth of FHA’s single-family program.</li> <li>—Evaluate program changes to reduce risk in single-family housing programs.</li> <li>—Review multifamily risk-sharing arrangements.</li> <li>—Assess the low-income property disposition program.</li> <li>—Analyze alternatives to provide mortgage financing to rural areas.</li> </ul>  |
| <b>Low-income housing</b>                                 | <ul style="list-style-type: none"> <li>—Assess the concept of vouchering out public housing in terms of comparative costs, feasibility in all situations, performance measurement, and local management capability.</li> <li>—Assess the link between housing and other human service programs and the extent these programs promote economic independence.</li> </ul>  |
| <b>Community development</b>                              | <ul style="list-style-type: none"> <li>—Identify federal assistance programs that support economic development in distressed urban areas and review overlap and differences among community development programs across agencies.</li> <li>—Evaluate and identify performance indicators and formulas for delivering community development programs.</li> </ul>   |
| <b>Small and minority-owned business development</b>      | <ul style="list-style-type: none"> <li>—Identify target markets served by SBA’s programs.</li> <li>—Determine interagency overlaps and gaps among programs providing support to small businesses, including programs in the Small Business Administration and the Department of Commerce’s Minority Business Development Agency.</li> </ul>   |
| <b>Disaster assistance</b>                                | <ul style="list-style-type: none"> <li>—Identify options to reduce costs in federal disaster assistance.</li> <li>—Identify advantages and disadvantages of consolidating major disaster assistance programs and propose solutions for coordination problems identified after recent large disasters.</li> </ul>  |

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