U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
THE SECRETARY
WASHINGTON, D.C. 20410-0001

April 7, 1995

The President
The White House
Washington, DC 20500

Dear Mr. President:

I herewith transmit for submission to Congress the draft Twenty-ninth Annual Report of the Department of Housing and Urban Development.

The report is a narrative record of the major activities under all of the programs administered by this Department for the calendar year 1993.

Respectfully,

Henry Cisneros

Henry G. Cisneros

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1993 HUD ANNUAL REPORT

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Office of the Secretary

Office of the Deputy Secretary

The Deputy Secretary has been designated as the Chief Operating Officer of the Department and serves as Acting Secretary in the absence of the Secretary. In the capacity of Chief Operating Officer he assumes a major role in accomplishing the Department's objective to create an environment that supports teamwork and organizational excellence. He also represents the Department on the President's Management Council and serves as the Regulatory Policy Officer for the U.S. Department of Housing and Urban Development (HUD).

As.part of the effort to reinvent the Department, the Deputy Secretary focused on addressing the systemic management problems that had been identified by the General Accounting Office (GAO), Congress, and the Department's own Inspector General. Key activities and accomplishments in 1993 to improve internal management and support more effective program delivery are discussed below.

Restructuring the Office of the Chief Financial Officer (CFO)

A departmental work group analyzed the implementation of the requirements of the Chief Financial Officers Act and recommended changes in organization to strengthen the Office of the CFO. The significant changes approved by the Secretary and the Office of Management and Budget (OMB) and implemented were the transfer of the Office of Finance and Accounting to the CFO, giving him direct control over program accounting, and clarifying and strengthening his role in financial systems integration.

Redirecting the Financial Systems Integration Project

Soon after his confirmation, Deputy Secretary Terrence R. Duvernay established a Systems Integration Steering Committee--composed of program Assistant Secretaries, the CFO, the Assistant Secretary for Administration, and the Inspector General--to direct the heavily criticized financial systems integration effort. The lack of efficient, effective, and integrated financial management systems that could be relied upon to provide relevant, timely, accurate, and complete information as a basis for sound program oversight and management decisionmaking was identified as one of the Department's systemic management problems.

As a result of the steering committee's review of the integration plan and the Tenant Rental Assistance Certification System and core accounting project, the financial systems integration plan was revised to reflect a new strategy that includes the following:

- Empowering program offices to develop systems integration plans consistent with their program and management priorities;
- Developing a standardized classification structure;
- Implementing a governmentwide standard general ledger;
- Developing departmental integration standards; and
- Strategic planning to develop business and systems plans.

Reinventing the Rules Process

One area identified for improvement in the Reinventing HUD discussions was the development and clearance of rules. The Department had a substantial number of unimplemented statutory requirements and a rules process that frequently resulted in long delays. The Deputy Secretary, as the Regulatory Policy Officer, implemented a number of changes to expedite the rules process and make it more responsive to customer needs. The changes include more focus by policy officials on key regulatory actions, greater discipline in the internal clearance and approval process, and publication of expiration dates for interim rules to ensure prompt response to any public comment.

Restructuring HUD's Field Organization

One major concern raised in the Reinventing HUD workshops addressed the three-tiered organization structure. There was general consensus that HUD was not effectively organized to deliver services with the limited staff resources available. In the fall of 1993 the Reinventing HUD task force assessed the opportunities for streamlining both Headquarters and the field. Moreover, the National Performance Review (NPR) report of September 7, 1993, recommended eliminating the regional office function to streamline HUD.

On December 1, 1993, the Secretary announced a concept for the field reorganization to implement the NPR recommendation and to address the need for HUD to put customers first. The key elements included streamlining the organization by eliminating the regional offices and empowering field staff by creating direct lines of authority between the program Assistant Secretaries and field program managers.

The Secretary asked the Deputy Secretary to assume responsibility for developing and implementing detailed reorganization plans to accomplish the reorganization in 1994. During December 1993, program office working groups were formed and planning began for a departmental reorganization task force to fully implement the reorganization.

Office of the Assistant to the Secretary for Field Management

The Assistant to the Secretary for Field Management is the Secretary's principal link with regional and field offices and has the primary responsibility for managing the field structure. The Office ensures that the Secretary's goals and priorities are disseminated to the field and monitors field progress in accomplishing departmental management and cross-program initiatives. The Office maintains close communications with field management officials regarding the adequacy of field policies and procedures and ensures that field concerns are addressed by top management. The Assistant to the Secretary for Field Management coordinates the recruitment, assignment, and evaluation of key field managerial personnel.

In 1993, the Office provided managerial and logistical support to the Office of the Secretary in organizing the series of Reinventing HUD workshops in all field offices to solicit employee input into the major restructuring of the Department's field organization. The Office of the Assistant to the Secretary for Field Management served as the clearinghouse for recommendations from field officials and employees on improving HUD management, employee training, and program delivery. Also, the Assistant to the Secretary for Field Management coordinated HUD disaster response efforts during the Midwest floods in the summer of 1993.

Office of Small and Disadvantaged Business Utilization

In support of the Department's economic development priority, the Office oversees a program to ensure that HUD does business with small businesses and other enterprises owned or operated by minorities, women, and disadvantaged people. The program helps these firms, especially the newer ones, overcome the disadvantages they may face as a result of their minority status or inner-city locations.

The Office prepares the Department's minority business development plan and works with HUD offices to ensure that they offer full and increasing opportunities to small and minority businesses. The staff advises operators of small and disadvantaged firms on how they can participate in HUD business opportunities.

In fiscal year (FY) 1993, 46.9 percent of HUD's prime contracts were awarded to small businesses and 21.3 percent of HUD's total procurement dollars were awarded to minority, disadvantaged, and women-owned companies. When all HUD programs, including grants, cooperative assistance, and credit assistance, were tabulated, regional and headquarters offices reported a total of $952.7 million spent with these firms.

In addition, the Office reviews proposed legislation and regulations to minimize potentially adverse effects on small or minority businesses.

<u>Office of the Assistant to the Secretary for Labor Relations</u>

The Assistant to the Secretary for Labor Relations serves as policy advisor and consultant to the Secretary and other principal staff on matters relating to organized labor, particularly the building trades, and acts as key contact with the Department of Labor (DOL) in the area of labor standards. A primary objective of the Office is to seek an affirmative relationship with organized labor and industry in general to support the housing and community development goals of the Department. The Office is also responsible for administering and enforcing prevailing wage statutory requirements in HUD programs, and it exercises functional supervision over field office labor relations staffs.

The Office continued to promote and implement the Step-Up program, an economic lift initiative developed in partnership with DOL and the National Association of Housing and Redevelopment Officials to provide jobs and training opportunities through apprenticeship to public housing residents and other low-income people in HUD-assisted construction, maintenance, and related activities. A Step-Up Interagency Partnership was established under the Secretary's leadership to pool and coordinate resources from HUD, DOL, and the Departments of Justice and Health and Human Services, thereby significantly expanding use of the program. In order to increase the efficiency and effectiveness of the field staff, Labor Relations was the first Office to use video conferencing as a means of reaching out both to its own staff and to DOL staff.

Office of Lead-Based Paint Abatement and Poisoning Prevention

The Office of Lead-Based Paint Abatement and Poisoning Prevention, created by Congress in December 1991, is responsible for the overall direction of the Department's lead-based paint activities.

The Office operates the Lead-Based Paint Hazard Control Grant Program established by Title X of the Housing and Community Development Act of 1992 (Public Law 102-550), known as the Residential Lead-Based Paint Hazard Reduction Act. The primary purpose of the program is to reduce the exposure of young children to lead-based paint hazards in their homes.

To accomplish this, the program provides grants of $1 million to $6 million to State and local governments for control of lead-based paint hazards in privately owned, low-income owner-occupied and rental housing. The grants are also designed to stimulate the development of a trained and certified hazard evaluation and control industry. All evaluation and control work under the program must be conducted by contractors who are certified and workers who are trained through a State-accredited program. In awarding grants, HUD promotes the use of cost-effective approaches to hazard control that can be replicated across the nation.

Since 1993, $279 million has been awarded to 56 grantees in 23 States. The work approved to date will lead to the control of lead-based paint hazards in more than 31,000 homes where young children reside or are expected to reside.

Homes (single-family or multifamily) selected for treatment under the program must have been constructed before 1978 and must contain lead-based paint hazards, which may include lead-contaminated dust or soil as well as lead-based paint. They also must be privately owned by or rented to low-income families. In addition to hazard control, funds can be used for

- blood testing of young children;
- inspection and testing of homes for lead-based paint and lead-contaminated dust and soil;
- temporary relocation of families during hazard control;
- community education and outreach; and
- data collection, analysis, and evaluation.

A Notice of Funds Availability (NOFA) for a fourth round of grants will be announced early in 1995.

In addition, the Office has made State Certification Program Grants to 13 States. These grants have been provided to States that have enacted legislation creating lead-based paint contractor certification programs. Grants funds are helping States expedite the implementation of the program. Approximately $2.4 million has been awarded to these 13 States. Since the Environmental Protection Agency (EPA) has been directed by Congress to assume primary responsibility for building State capacity on lead-related issues, the remaining State capacity-building grant funds (approximately $3.5 million) will be transferred to the EPA and remain available to those States that have enacted contractor certification legislation. An interagency agreement to effect this transfer is underway.

In addition to the grant program, the Office continues its coordination of Federal lead-hazard reduction activities with the EPA and the Centers for Disease Control and Prevention. In 1992 Congress passed major legislation redirecting the course of lead-hazard reduction efforts: Title X of the Housing and Community Development Act of 1992. This legislation requires substantial revision of HUD's lead regulations and HUD guidelines for lead-abatement work. Developing and issuing these regulations and guidelines are top priorities for the Office.

Office of Public Affairs

The Office of the Assistant Secretary for Public Affairs advises the Secretary and other principal staff on the most effective ways to communicate HUD policy and information about the Department's programs and services to the public and news media.

In working with the media on its coverage of the Department, the Office arranges interviews for the Secretary and other appropriate spokespersons, prepares press releases and feature articles, and handles requests from reporters.

Public Affairs also prepares speeches and public statements for the Secretary. It works with public affairs officers in the regional and field offices. The Office oversees all proposed departmental publications, exhibits, and audiovisual products.

Office of Special Actions

During his first year at HUD, Secretary Cisneros created a small Office of Special Actions to serve as a catalyst for creating nontraditional partnerships to address the needs of both urban and rural America; as an advocate for citizens living in rural areas, particularly migrant farm workers and Americans living in *colonias* close to the Mexican-American border; and as a resource for community organizing. The Office acts in an entrepreneurial manner, fostering collaborations among foundations, private corporations, nonprofit groups, community development corporations, advocacy groups, the religious community, universities, arts groups, professional athletes, State and local governments, other Federal agencies, and often--though not necessarily--HUD. The Office convenes and expedites these efforts. In addition to stimulating new collaborative efforts, the Office identifies successful and innovative partnerships already in existence and seeks opportunities for replication. The Office administers no programs or funds; rather, it serves as an incubator for ideas that may lead to new or modified policies and programs to carry out the Department's mission and the Secretary's objectives.

Although the Office is a new organization, it was instrumental in proposing the concepts for 1994 legislation creating a *Colonias* Assistance Program and a Community Viability Program. The Office actively pursued outreach and interagency efforts to address issues related to *colonias,* migrant farm workers, and rural housing issues. Among other projects, the Office provided support in two capital formation ventures: the National Community Development Initiative, a partnership between HUD and private foundations to leverage funding for community development activities, and the Community Investment Demonstration, which creates partnerships between HUD and employee pension funds to develop affordable housing. Throughout the past year, Office of Special Actions staff have provided guidance and assistance to numerous community organizing groups, acting as both navigator and facilitator.

Office of General Counsel

The Office of General Counsel (OGC) is responsible for all legal advice and support necessary for the Department's official activities. OGC ensures that application processing for loans, grants, and mortgage insurance meets legal requirements. It drafts legislation and program regulations and handles litigation and regulatory enforcement. OGC also provides direction and options to all departmental programs and administrative management for Headquarters, and for regional and field offices in 70 locations. OGC's most significant accomplishments in 1993 are described below.

<u>The Real Estate Settlement Procedures Act</u>

In May 1993, the Department issued a proposed rule drafted by OGC that would extend the Real Estate Settlement Procedures Act (RESPA) to home equity loans and lines and other junior lien transactions, thereby adding approximately one million transactions to RESPA coverage. In August 1993, OGC staffed a hearing, with 38 witnesses, that considered revisions to the overall RESPA rule published by the previous administration on November 2, 1992. That rule brought a storm of criticism and resulted in the filing of a major lawsuit against HUD. The public hearing allowed input into the regulatory process by consumer organizations, as well as industry groups, including testimony from numerous witnesses and 1,550 comments.

Oversight of Government-Sponsored Enterprises

In October 1993, the Department issued interim notices of housing goals for the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) requiring these Government-sponsored enterprises to increase their purchases of mortgages financing housing for low- and moderate-income families, housing located in central cities, and housing meeting the needs of very low- and low-income families. OGC drafted these housing goals with the Office of Policy Development and Research.

Lead-Based Paint

OGC, with assistance from the Office of Lead-Based Paint Abatement and Poisoning Prevention, developed a joint rule with the Environmental Protection Agency implementing Section 1018 of the Residential Lead-Based Paint Hazard Reduction Act of 1992. This provision requires all sellers and lessors to provide buyers and lessees with information concerning the hazards of lead-based paint. This proposed rule reportedly will be cleared by OMB shortly and should be published in the *Federal Register* soon.

Delegations of Authority

OGC began drafting redelegations of authority for the Office of Housing, the Office of Community Planning and Development, the Office of Public and Indian Housing, the Office of Administration, and the Office of Fair Housing and Equal Opportunity, revoking authority previously granted to HUD regional administrators and HUD field office managers and otherwise implementing the first phase of the field reorganization.

Achieving Organizational Excellence Through Employee Training

OGC attorneys prepared and presented HUD's first interactive satellite teletraining program (Bankruptcy in Multifamily Projects), which was transmitted from the Postal Service studio to several sites around the country. The audience included not only HUD Field Counsel but also Assistant U.S. Attorneys and selected HUD multifamily loan management staff.

As a result of the devastation to manufactured homes in Florida by Hurricane Andrew, the Department issued a major rule amending and significantly upgrading the manufactured housing wind resistance standards. OGC played a leadership role in all stages of the rule's development, including consultations with the National Manufactured Housing Advisory Committee.

Government National Mortgage Association

OGC served as the lead office in drafting legislation for the Government National Mortgage Association (GNMA) multiclass securities program. This legislation was enacted in the Omnibus Budget Reconciliation Act of 1993 and signed by President Clinton on August 10, 1993.

OGC assisted GNMA with issuer defaults. In 1993, GNMA experienced one single-family default and two manufactured housing defaults. OGC also assisted GNMA with sales of assets. During 1993, GNMA sold $3 billion in single-family servicing rights and $694 million in multifamily servicing rights.

Assistance in Forming Regional Housing Authorities

OGC provided guidance to numerous Colorado mountain communities in forming multijurisdictional housing authorities and entering into intergovernmental cooperation agreements in order that the authorities might provide more housing opportunities to the many low-income service workers in the mountain towns.

Litigation

The Litigation Office has incorporated its defensive litigation role with the Department's affirmative civil rights responsibilities. Major litigation that has been, or is well along in the process of being, settled is as follows:

In *Hawkins v. Cisneros* (Omaha), the General Counsel negotiated a settlement implementing the Department's new policies promoting the desegregation of public housing. The Secretary determined that the Department should exercise leadership in reducing spatial separation of federally assisted housing residents by race, and the settlement in this case was an important step in that direction.

In *Sanders v. HUD* (Allegheny County, PA) and *Hollman v. Cisneros* (Minneapolis), OGC continues to negotiate metropolitan areawide remedies to promote housing desegregation. In *Sanders*, OGC provided substantial input and advice to a task force that prepared HUD's proposed desegregation plan and is finalizing a consent decree based on that plan. Even where settlement has not occurred, the administration's new litigation policy has been facilitating favorable resolutions by courts. In *Resident Advisory Board v. HUD*, and *Velez v. Cisneros*, HUD has achieved favorable resolutions of difficult cases involving de facto demolition of public housing. Most significantly, in *Young v. Cisneros* and *Walker v. HUD* (Dallas), the Department has acted proactively to address longstanding segregation in Texas.

In *Young*, HUD has endeavored not merely to eliminate racially identifiable public housing projects in East Texas but also to actively promote desegregation throughout the area. Salient in this effort was HUD's takeover, under the advice and guidance of the General Counsel, of the Vidor project in light of the KKK-inspired opposition to its desegregation. HUD withdrew the desegregation plans submitted by the previous administration and submitted new, dramatically more ambitious plans. In addition to removing disparities in public housing projects and surrounding areas, HUD proposes to require public housing authorities to implement various waiting list initiatives designed to further desegregation.

In *Walker*, the Secretary withdrew the previous Kemp plan for West Dallas and has developed his own plan, which addresses three major new initiatives, designed to make public housing more attractive and livable for all present and future residents and to increase housing opportunities for class members (all African-American residents of, or applicants for, public housing in the 36-county area under the court jurisdiction) and other income-eligible individuals needing HUD-assisted housing. The plan has won wide-ranging approval from the affected citizens of Dallas.

Home Mortgage Disclosure Act

OGC has significantly increased its activities to enforce the Home Mortgage Disclosure Act (HMDA). In addition to processing more than 25 cases this year involving Mortgagee Review Board (MRB) action against lenders who fail to submit the required HMDA data, OGC has supported proposed legislation to extend HUD Civil Money Penalties to non-FHA lenders who are required to submit HMDA data to HUD. OGC also provided substantial staff assistance to carry out the proposals of the MRB's special HMDA committee, such as preparing an HMDA-related mortgagee letter, analyzing HMDA data for "worst-case" lenders, and drafting a model letter of concern for lenders whose HMDA data makes them part of the "worst-case" group.

Mortgagee Review Board Actions

In addition to HMDA-related matters, OGC has dealt with more than 40 cases this year for MRB. These cases have ranged from significant matters involving multiple multifamily projects, such as TRI Capital Corporation, to relatively routine 1-year withdrawals of companies that have failed to submit annual financial statements and fees to the Federal Housing Administration (FHA).

Debarments and Suspensions

As with MRB work, OGC has emphasized the Secretary's priorities by taking the initiative in the debarment field. OGC is currently preparing a major revision of regulations to streamline the debarment process by reducing the delays and complexities that characterize the current system. OGC has made extra efforts to develop cases that involve Operation Safe Home-type violators in the multifamily and public housing areas. For example, OGC has worked closely with HUD program staff to produce rapid debarments of fraudulent lead-based paint testers and removers. After successfully suspending Dean Ross and Bruce Rozet, OGC pursued a debarment case against them and obtained a settlement that requires them to withdraw from participating in more than 80 projects.

Program Fraud Civil Remedies Act Cases

This area has been the fastest growing portion of OGC's workload. In 3 years, the caseload has tripled to nearly 100 cases. The main reason for the growth is that OGC identifies and develops appropriate program fraud cases as an outgrowth of its debarment and MRB work, rather than waiting for the Inspector General (IG) to recommend cases.

Inspector General Support

OGC continues to process IG requests for assistance, primarily by preparing and enforcing administrative subpoenas and handling Freedom of Information Act issues for the IG. OGC handles about 400 such items each year. OGC recently developed an entirely new subpoena system for the IG, involving the exclusive use of electronic mail for preparing and transmitting subpoenas to IG field staff, who then print and serve them.

Federal Court Litigation

OGC ordinarily handles two types of Federal court cases. First, OGC enforces IG subpoenas and handles any cases naming the IG as a defendant. Second, OGC handles any Federal court cases involving debarments or MRB actions. Although only a handful of these Federal cases arise each year, they are important. OGC has never lost a subpoena enforcement case. This year, OGC won a significant decision in the D.C. Circuit Court, where the court reversed (without remand) the District Court and upheld the Department's debarment of Carroll Kisser, an official of the DRG Financial Corporation, a coinsured lender that caused massive FHA and GNMA losses.

Fair Housing Enforcement

The Fair Housing Enforcement Division assisted Assistant Secretary Achtenberg in mounting an all-out offensive on segregation throughout the country by participating in an intradepartmental task force organized to create a prototype comprehensive desegregation plan that would not only eliminate racially identifiable project sites but would also attempt to overcome spatial separation and segregation in all assisted housing in an affected jurisdiction. The prototype has been used in the development of desegregation plans for East Texas and Allegheny County, PA.

Under the direction of the General Counsel, OGC provided an increased number of detailed legal guidance memoranda to the Office of Fair Housing and Equal Opportunity (FHEO) and field assistant general counsels addressing such topics as handling fair housing cases against Federal executive agencies or their employees; handling occupancy fees and familial status discrimination; and analyzing fair housing complaints where there have been prior State or local administrative proceedings.

In *HUD v. Mountain Side Mobile Estates*, as a result of a series of OGC appeals from an Administrative Law Judge's (ALJ) initial decisions, the Secretary enunciated standards for determining cases of discriminatory impact in fair housing cases. The Secretary ruled that (1) the use of national statistics is appropriate to determine whether or not a racially neutral practice or policy has a discriminatory impact in the absence of any showing of a large variation of national statistics from local statistics; (2) in discriminatory impact cases, the business necessity standard, not a business justification test, is the appropriate rebuttal standard after a prima facie case has been made; and (3) the business necessity test means that the policy or practice at issue must serve a necessary or compelling relationship to the needs of a housing provider and such a relationship must be shown through the use of objective evidence, not mere speculation or subjective opinion. The agency's decision is currently on appeal to the Tenth Circuit Court of Appeals.

The case of *HUD v. Aylett*, involving racial discrimination, also resulted from a series of OGC appeals of an ALJ's initial decisions. In this case, the Secretary reversed the ALJ's dismissal of the charge of discrimination and the ALJ's initial findings respecting the trustworthiness of a HUD investigator's notes and the credibility of the housing providers. The Secretary remanded the case to the ALJ for an award of damages. On remand, the ALJ awarded the complainant approximately $100,000 in compensatory damages, which the Secretary affirmed. The agency's decision in this case is also currently on appeal to the Tenth Circuit Court of Appeals.

OGC worked closely with counsel for the Boston chapter of the National Association for the Advancement of Colored Persons (NAACP) and counsel for project tenants to obtain NAACP's agreement that conversion of an insured multifamily housing project in Boston to cooperative ownership by the tenants under the HOPE (Home Ownership for People Everywhere) 2 program would be exempted from the consent decree between HUD and the NAACP prohibiting reduction in the amount of HUD-assisted "rental" housing in Boston. The consent decree--entered into in 1991 to resolve longstanding litigation between HUD and NAACP relating to HUD's obligations to affirmatively further fair housing under Title VIII of the Civil Rights Act of 1968--stipulates that HUD cannot approve any disposition of multifamily housing that would reduce the supply of affordable multifamily rental housing in Boston. A joint motion filed by both HUD and NAACP was approved by the court, exempting the project from the consent decree's prohibition.

Foreclosures

During the year, the single-family judicial foreclosure programs for New Orleans and Tulsa made significant progress. OGC staff worked directly with the U.S. Attorneys for those jurisdictions. These attorneys also monitored the implementation of paralegal contracts, facilitating the foreclosure process. The other offices in the Southwest already had successful foreclosure processes in place.

Sanctions

OGC participated in and effected the ongoing increase in sanction cases and prosecuted two sanctions completely through the appeal process. Both the (LDP) and debarment hearing ended successfully with the ALJ upholding HUD's sanction.

LDP Hearing--*In the matter of James Harper*

A 1-year sanction was upheld against an East Texas public housing agency executive director for mismanagement. The victory in this sanction case fundamentally renders moot a Federal District Court case against the regional administrator and six other regional employees.

Debarment Hearing--*In the matter of Mark Beck*

A 4-year sanction was upheld for an unauthorized purchaser of a 221(d)(4) project and his misappropriation of project funds. The recent victory in this debarment has caused the debarred individual to disassociate himself from the project and has broken a logjam in a related bankruptcy proceeding.

OGC also acted as agency counsel in another debarment appeal (*Roscoe*) dealing with a troublesome pro se respondent and effectively representing the Department, including giving statements to the local news media. Furthermore, OGC prepared 22 limited denials of participation and 7 recommendations for debarment.

OGC assisted mortgage companies and HUD single-family program staff in reviewing and approving more than 2,000 titles to single-family properties assigned to the Department; OGC also assisted in and monitored title approval work performed by attorneys under contract to HUD, in the capacity of government technical representative and government technical monitor.

Multifamily and Single-Family Bankruptcy Litigation

In 1993, the Department defeated three Chapter 11 bankruptcy filings involving "cramdown" of HUD's mortgage in multifamily projects; obtained dismissal of an adversary proceeding seeking in excess of $235,000 in damages; and recovered in excess of $180,000 in cash collateral disputes. Additionally, HUD handled a constant caseload of approximately 50 Chapter 7 and 13 bankruptcy filings of single-family properties, resulting in allowable claims to HUD in excess of $2,000,000.

Brio Superfund Site/Southbend Subdivision Litigation, Houston, TX

In order to protect the FHA insurance funds and the credit interests of mortgagors with FHA-insured mortgages secured by properties adjacent to the Brio Superfund Site, HUD successfully negotiated an agreement with Southbend Properties, Inc. (SPI), in anticipation, and in lieu, of affirmative litigation by HUD. Under the terms of this agreement, HUD adapted the preforeclosure sale procedure to facilitate the partial payoff of the mortgages by SPI (68 percent of the outstanding mortgage balance of FHA-insured mortgages on properties acquired by SPI). In addition, the lenders could file nonconveyance claims with HUD for the balance and were instructed by HUD not to file adverse credit reports on delinquent mortages and to correct any previously filed adverse reports. To date, HUD has recovered in excess of $9.1 million and, upon completion of all closings, will have recovered in excess of $11 million.

Bankruptcy Cases

HUD received full payment for its claim in a bankruptcy case involving the San Antonio, TX, Las Colinas Apartments. The owner had secured an FHA-insured loan to refinance an existing mortgage. Default occurred and the loan was assigned to HUD, and HUD paid a claim of $2,554,433.52. The owner filed Chapter 11 bankruptcy on January 27, 1993. The project was sold on November 30, 1993, with HUD receiving a payment of $2,950,767.81, plus an additional $146,000 in monthly debt service payments, which was $542,334.29 more than HUD paid on the claim. Through extensive efforts and coordination between the SAOG and the U.S. Attorney's Office, HUD received a significant payment of funds while being relieved of a draining asset.

Reducing the Number of Distressed Public Housing Units--Privatization of Public Housing Management Upheld

OGC successfully defended the Department's role in concurring in the decision of the Commonwealth of Puerto Rico to delegate management of its public housing to private companies. That action, pursuant to a written agreement with HUD, was undertaken to address unsatisfactory conditions in the operation of the Nation's second-largest public housing agency (PHA). Certain employees of the PHA challenged the privatization in two lawsuits involving HUD (*American Federation of Public and Private Employees v. Commonwealth of Puerto Rico*; *Acevedo-Villalobos v. Hernandez Colon*). Both have been dismissed, in part because this was an action by the Commonwealth and not HUD. One decision was appealed to the U.S. Court of Appeals for the First Circuit and was affirmed. The plaintiffs' request for stay of that decision until they can attempt to have the Supreme Court review the matter has been denied.

Reducing the Number of Distressed Public Housing Units

This office was able to authorize the Housing Authority of New Orleans (HANO) to settle *Tania A. Douglas, et al. v. HANO*. In this case two infants were seriously burned as the result of a fire in an apartment owned and operated by HANO. The case settled for $3.5 million, which HANO will pay in quarterly payments over a 17-year period from its operating subsidy.

Reducing Racial Barriers--Fair Housing Cases and Activities

OGC assisted the General Counsel in desegregation efforts in Vidor, TX, by providing onsite legal guidance during the takeover of the Orange County Housing Authority and by preparing contracts for the Orange City Housing Authority's assumption of operation of the Orange County Housing Authority. OGC also prepared and coordinated the contract with Life Resource in Beaumont, TX, to provide counseling services for new and existing Vidor public housing development residents.

The Office of the Assistant General Counsel for the Southeast/Caribbean recorded major accomplishments in fair housing enforcement. Complainants obtained relief in many cases, but three are worthy of special note:

- *HUD v. Ocean Sands, Inc.* (HUDALJ Nov. 15, 1993)--A widow and the estate of her disabled husband were awarded $22,500 because the condominium in which they lived delayed for several years granting them permission to install a wheelchair lift.

- *HUD v. Nelson Mobile Home Park* (HUDALJ Dec. 2, 1993)--A single mother with a history of emotional problems was denied the opportunity to rent a lot in the respondent's mobile home park, resulting in an award of $30,000 for emotional injuries.

- *HUD v. Cypress Bend Homeowners Association of Countryside, Inc.* (Initial Decision and Consent Order, May 5, 1993)--As part of a groundbreaking settlement, a neighborhood association that had sought to block the establishment of a group home for head-injured adults agreed to provide more than 400 hours of community service to the home in addition to $5,000 in monetary relief.

The Southeast/Caribbean Office has given more than two dozen presentations at conferences throughout the Southeast and nationally, including the National Fair Housing Initiatives Program Conference, the Office of Thrift Supervision Regional Compliance Training Conference, the Lawyers' Committee for Civil Rights Under Law Fair Housing Litigation Training for Pro Bono Attorneys, and a meeting of the Greater Miami Apartment Association Fair Housing for Apartment Managers and Agents.

Excellence in Program Management--Public Housing Enforcement Activities

OGC responded to wrongdoing on the part of PHA officials by preparing and handling sanctions against those officials. One sanction involved an executive director who converted PHA funds to his own use. Another was issued against a maintenance official for assisting in the submission of fraudulent income information. A third, against an executive director of a large PHA, resulted from a fair housing complaint and subsequent HUD charge of sexual harassment against tenants and retaliation against a PHA employee.

The Southeast/Caribbean Office also continued to litigate cases involving sanctions against former PHA executive directors in Florida and Tennessee. In the latter case (*Nell Witt, et al.*, February 5, 1993), an important ruling was issued, holding that public housing funds could not be used to pay for fees of attorneys representing sanctioned officials.

Excellence in Program Management--Multifamily Foreclosures

A swift and sure foreclosure process greatly aids the Department's effort to ensure maintenance of quality multifamily housing stock and sound financial management practices. In 1993 the Southeast/Caribbean region, under the Multifamily Mortgage Foreclosure Act, successfully carried out 28 foreclosures of multifamily developments. This activity resulted in a return of more than $105 million to the Insurance Fund, of which approximately $52 million was paid by third-party bidders.

Affirmative Litigation

After extensive activity over a number of years, the *United States v. Tiffany, et al.* cases in the Alaska Federal District Court were negotiated toward final settlement. Two cases were affirmatively initiated by HUD in 1991, based on adverse findings against the project owners arising out of Regional Inspector General for Audit (RIGA) findings issued in 1988.

The project owners operate Coho Park Apartments, with 52 units of housing, and Chinook Apartments, with 64 units. Both projects are located in Juneau, AK, and were insured under 221(d)(4) of the National Housing Act in 1982-83.

The lawsuits were initiated because of RIGA findings that the project owners were making a series of unauthorized charges and payments in a number of identity-of-interest transactions related to maintenance and cleaning services for the projects, lease fees for laundry machines, etc. As a result, project assets were depleted and project owners and their entities received improper funds.

After many months of a series of negotiations and meetings involving counsel for the various parties, these two lawsuits were settled. A complex settlement agreement outlines how the owners will pay approximately $280,000 into project assets. Based on previous physical inspections, a number of repairs will be accomplished in the project buildings. In return, HUD has agreed to discontinue sanctions against the projects and their owners and to authorize payment of certain management fees.

Reinventing HUD Activities

To promote the expansion of housing opportunities, OGC participated with the Seattle Office of Housing to change its approach in processing multifamily FHA insurance applications. Five teams were created in the Housing Division. Each team consists of a mortgage credit person, a valuation person, an economist, an A&E person, a loan management representative, an attorney, and the multifamily housing representative (who usually is the team leader). The team approach increases communication and coordination of issues relative to the various stages of processing the application. Each team is responsible for specific projects. Each member is kept informed on any issues from the application stage to the closing/insurance endorsement of the project note. The experience of the past year demonstrates that in this more efficient teamwork atmosphere, issues are raised, identified, and resolved more quickly.

To promote more open housing markets, OGC increased its staffing resources by approximately 50 percent to support fair housing enforcement activities. Production of reasonable cause determinations more than doubled in the Seattle office, and legal reviews and other legal advice increased significantly in the area of fair housing.

To promote excellence in performance and to manage Internal Revenue Service Tax Offset appeal activities, a paralegal specialist and attorney from OGC participated with the Seattle Debt Management Center staff to handle and respond to more than 680 appeals. Weekly meetings were scheduled with key staff, and periodic meetings were held to inform and coordinate with debt service representatives. The paralegal specialist was physically located in the Debt Management Center to coordinate handling cases and retrieving records. Virtually all appeals were effectively resolved and handled in a timely manner.

Meeting the Needs of Citizens

In a matter of first impression we prepared, to the satisfaction of the National Historic Trust, historical covenants to be placed against two properties in the State of Delaware. Without the covenants, the properties could not have been used as group homes for supportive housing for persons with disabilities.

Housing Finance Agency Risk-Sharing Program

OGC participated in developing the innovative risk-sharing program under Section 542(c) of the Housing and Community Development Act of 1992 by providing extensive legal advice concerning the permissible features of the program and by assisting in the formulation of the regulation implementing the program. OGC also took the lead in drafting model risk-sharing agreements for the Section 542(c) program that have been executed by several Housing Finance Agencies (HFA's). This program will expand affordable housing opportunities through the assignment of certain development and loan management functions to HFA's.

Flexible Subsidy Program

OGC provided substantial legal guidance to the Office of Housing in drafting proposed and final regulatory amendments to 24 CFR Part 219 that implemented Sections 405 and 406 of the Housing and Community Development Act of 1992. The statutory provisions substantially amended the Flexible Subsidy program by establishing new selection criteria for flexible subsidy assistance and by giving eligible projects that have federally insured mortgages priority over other eligible projects. In order to expedite processing, the amendments require HUD to review and approve or disapprove each management improvement and operating (MIO) plan no later than 30 days after receipt. OGC also provided substantial support and counsel to the Office of Housing in developing an entirely new NOFA for the Fiscal Year 1993 Flexible Subsidy program. These changes will enable the Secretary to provide assistance to HUD-insured, low-income housing more efficiently.

Legislation

The Office of General Counsel played a key role in the enactment of the Secretary's first legislative program. The Office provided legal support for what was later enacted as the Multifamily Housing Property Disposition Reform Act of 1994. Among other things, this legislation contained a major reform of the way the Department manages and disposes of its multifamily inventory and established the new Economic Development Grant program under section 108 of the Housing and Community Development Act of 1974.

The Office also worked closely with Assistant Secretary Cuomo in developing the Administration's Enterprise Zone legislation. This included full participation in policy and drafting discussions at the White House with the National Economic Council, Treasury, and OMB, as well as drafting the $500 million Enterprise Grant program. In addition, the Office drafted the Department's budget amendments to authorize the NCDI, innovative homeless, and Section 8/pension initiatives.

Finally, the Office drafted the Department's FY 1995 authorization bill. This legislation--the largest ever drafted by HUD--contained the Secretary's highest priorities for FY 1995, including the following (broken down by Secretarial priority):

1. Assist homeless persons and families: a reorganization of the McKinney homeless housing programs to provide formula-based grants for establishing and maintaining a continuum of care for the homeless.

2. Reduce the number of distressed public housing units: proposals to encourage residents of assisted housing to become and remain employed, to reduce crime in and around assisted projects, and to authorize direct loans to leverage additional funds for modernization and replacement housing.

3. Develop affordable housing and make homeownership a reality for more Americans: a new FHA single-family insurance program for first-time homebuyers in revitalization areas; higher maximum dollar amounts for FHA mortgages; single-family risk-sharing mortgage insurance authority; and strengthened homeownership counseling and outreach.

4. Reduce racial barriers: Economic Opportunity Centers to link assisted housing residents with jobs and a Metropolitan Areawide Strategy Demonstration to test the marketing of assisted

housing through areawide waiting lists; authority to use Modernization and Headquarters Reserve amounts for the settlement of civil rights litigation and the desegregation of public housing; and a Choice in Residency program to encourage poor people to move from impacted areas.

5. Empower communities: the LIFT program (a new project-based grant program for physical and economic development); the Community Viability Fund (grants for capacity-building and strategic planning); the new Colonias Assistance Program; and the Zone Economic Development Initiative to further housing and economic development in Empowerment Zones and Enterprise Communities.

6. Create an environment that supports teamwork and organizational excellence: authority to pursue nonjudicial foreclosure of defaulted single-family mortgages held by HUD; authority to refinance Section 235 mortgages at lower interest rates; Section 8 rent reforms; and authority for flexible use of technical assistance to enhance program management.

With regard to appropriation law, OGC provided guidance on a number of important subjects. The Office played a central role in negotiations both within HUD and at Treasury and OMB to reclaim for use by the Secretary the $203 million that had been erroneously rescinded. Appropriation opinions included the applicability of the Antideficiency Act to Section 8 contract amendments--an opinion that will improve the Department's record of accounting for these amendments--and ensuring the transfer of disaster vouchers from FEMA.

Regulations

The Office of General Counsel played a critical role in the reform of the Department's rulemaking process. On October 7, 1993, the Deputy Secretary signed a memorandum that contained the Office of General Counsel's recommendations for improving the process. Major features included the use of a Top 25 list of priority rules upon which the resources of the Department would be focused, as well as a rejuvenated "drop-dead" clearance and appeal system. The Office of General Counsel has worked to institutionalize these recommendations through biweekly status reviews of the most important rules. The office has also taken the lead in implementing the President's new Executive Order on Rulemaking (E.O. 12866).

The Office prepared Implementation Guides for all authorizing and appropriation laws enacted during the period, including the 1992 Housing Act. This Act was one of the longest and most complex authorizing bills in HUD's history. The guides indicated for each provision whether an implementing rule is necessary and, if so, what kind; whether the provision applies upon enactment; whether there are any statutory production deadlines; and whether the provision had funding. The guides have been invaluable in providing overall instructions for implementing these laws.

During FY 1993, the Office published 31 final rules, 23 interim rules, and 25 proposed rules. Many reflected secretarial priorities, including two HOME rules, rules implementing new FHA mortgage limits, the preference rule, and a special rule excluding Holocaust reparation payments from the income calculation for assisted housing tenants. The Office prepared and submitted to OMB in accordance with all deadlines the Department's entries for the Regulatory Program of the United States and the two Semiannual Agendas of Regulations.

Program Counsel

The attorneys in OGC who provide continuing legal advice to administrators carrying out HUD assistance programs are sometimes called "program counsel." In 1993, program counsel performed many functions and undertook many actions to support departmental objectives, especially Reinventing HUD aspects of assistance programs.

For example, OGC responded swiftly to the new administration's concerns about flexibility in funding and related limits on assisted housing funding choice by reason of statutory formulas and explicit statutory set-asides. In this connection, program counsel noted that statutory fair sharing requirements do not apply under section 213(d) of the Housing and Community Development Act of 1974 to "uses that the Secretary determines are incapable of geographic allocation." OGC suggested that such a determination by the Secretary, so long as formally incorporated into departmental reprogramming that is flagged by the appropriations committees, would satisfy basic comity with Congress. Such a tool is particularly useful for instances in which legislative history points to specific use of program funds but is not actually incorporated into the statute. OGC drafted a regulation to this effect, and it is currently in use.

One of the Reinventing HUD priorities of Secretary Cisneros is to improve public housing. In support of this priority, Congress has devised a radically new approach, the Urban Revitalization Demonstration, or HOPE 6. The funding of HOPE 6 was effected through appropriations, rather than authorization and legislation.

- An OGC opinion advised the Secretary that, based on the 1993 Appropriations Act's restrictions on the number and amount of permissible awards, a number of options were available for determining how the selections could be made. As is customary with program counsel, these staff attorneys worked closely with the program office in preparing options for the Secretary that applied the concepts developed in the legal opinion.

- Later in the year, early advice from the General Counsel concerning legal difficulties in furthering the funding of HOPE 6 applications in the second round made feasible a timely appropriations strategy.

- OGC was closely involved in determining eligible applicants and selecting awardees for the second HOPE 6 funding round, under the 1994 Appropriations Act.

A substantial number of program counsel assignments involve casework, that is, providing legal advice in connection with specific factual circumstances under a specific HUD program. During 1993, program counsel advanced the Reinventing HUD priority of empowering communities through Community Development Block Grant (CDBG) programs by the following casework:

- Legal support to establish a statutorily predicated urgent community development need in connection with removing dangerous underground fuel tanks in Natick, MA;

- Creative infusion of Section 8 vouchers into the Shelter Plus Care program and the Secretary's District of Columbia homeless initiative; and

- A legal green light for furnishing homeless program assistance to Habitat for Humanity, which program counsel concluded was not a "pervasively sectarian" organization under Supreme Court case law. Inclusion in its organizational documents of what Justice Blackmun has called merely "institutional rhetoric" did not alter that conclusion.

For both Community Planning and Development (CPD) and Public and Indian Housing (PIH) programs (Reinventing HUD goals of empowering communities and providing affordable housing), program counsel provided rapid legal advice with regard to appropriate uses of the 1993 emergency supplemental appropriations assistance for the flood and disasters relief. Staff attorneys also offered legal signposts for the execution of waivers in the HOME and Section 8 programs "for responsive, timely relief from" Hurricane Andrew, Hurricane Iniki, and Typhoon Omar. In this connection, counsel focused on terminology of replacement in the flood disaster legislation to facilitate the Secretary's desire to emphasize a housing recovery effort.

Over the year, program counsel addressed specific legal aspects for new administration objectives. Examples include formulating an interpretational avenue to facilitate funding major reconstruction of obsolete projects (MROP) in the absence of express statutory authority; using housing assistance distribution mechanisms and the section 108 Loan Guarantee program to facilitate major new initiatives with AFL-CIO pension funds; and exploring, through encompassing legal analysis, how existing community development program policy could be broadened to promote economic development in slums or blighted areas.

Office of Housing--Federal Housing Administration

The Federal Housing Administration (FHA) plays a key role in fulfilling the Department's mission to help people create communities of opportunity. Since 1934, FHA has helped more than 21 million Americans buy homes and countless others rent decent, safe, and affordable housing.

The Assistant Secretary for Housing-Federal Housing Commissioner administers the mortgage insurance programs of FHA, which include single-family homeownership, property improvement and renovation, multifamily rental housing, and health care facilities. The Office of Housing also administers the Interstate Land Sales Registration program, which protects buyers of undeveloped land from fraud and questionable sales practices through developer registration and disclosure; the Manufactured Home Construction and Safety Standards programs, which ensure the quality and durability of manufactured housing; the Section 202 and Section 811 programs; the Housing Development Grant Program; the HOPE 2 Homeownership program; Congregate Housing Services grants; and Service Coordinator funding.

During the past year, FHA performed a comprehensive review of its programs, organization, and activities and set an agenda for reforming FHA so that it once again becomes a positive force for developing affordable housing. This review also was conducted to reestablish FHA's role as a principal means for increasing homeownership opportunities for families as well as for expanding State and local public and private partnerships to further homeownership and affordable rental housing opportunities. Four priorities govern FHA's efforts in the upcoming years:

- Production — More homeownership and rental opportunities through public and private partners.
- Portfolio Management — Effective management of insured and Secretary-held mortgages and Secretary-owned properties.
- Preservation — Continued affordability and improved physical condition of assisted housing units.
- Performance — Improved organizational structures and management systems.

Single-Family Housing

FHA's mission for the single-family programs is to increase the affordability of homeownership, promote and strengthen the housing finance system, and foster improvements in housing quality, standards, and conditions. To fulfill this mission, the Office of Single Family Housing set the following goals:

- Increase production of affordable owner-occupant housing;
- Improve management of FHA's portfolio of insured mortgages, Secretary-held mortgage notes, and Secretary-held properties;
- Preserve opportunities for low- and moderate-income households to become homeowners; and
- Adopt organizational structures and management systems to achieve these goals, manage risk, and make FHA more efficient and responsive to its customers.

The Office administers several insurance programs designed to answer specialized home buyer and homeowner needs: the Home Equity Conversion Mortgage program, which allows homeowners (age 62 or older) to borrow against the equity in their home; the Rehabilitation Loan program, which funds the purchase and/or refinance of residential property with repairs or improvements; and the Disaster Relief program, which aids individuals or families whose residences were destroyed or damaged in Federal disaster areas. In addition, the Department is attempting to mitigate the hardships experienced by mortgagors with FHA-insured mortgages who are directly affected by military base closings.

Single-Family Insurance Activity

In FY 1993, FHA insured approximately 902,000 mortgages, totaling $66.1 billion, bringing the total outstanding insurance-in-force to $312.5 billion.

Typical FHA Home Buyers

The typical home buyer purchased a home at a median sales price of $76,369 and made a downpayment of $3,800. The median mortgage amount was $72,390, and the median family income was $37,087. Approximately 41 percent of all mortgagors were first-time home buyers.

Markets Served

FHA-insured financing is available across the Nation. Approximately 96 percent of the mortgages insured are in metropolitan areas, and 4 percent are in rural areas. The HUD field offices with the highest number of mortgages insured during FY 1993 were as follows:

Field Office	**Number of Mortgages**
Denver	52,753
Minneapolis	48,224
Phoenix	38,638
Atlanta	33,412
Santa Ana	31,048

Secretary-Held Single-Family Mortgage Note Portfolio

As of September 30, 1993, the portfolio of Secretary-held mortgage notes was 100,079, an increase of 4 percent from September 30, 1992. Purchase Money Mortgages (PMM) decreased by 13.6 percent, from 2,397 to 2,065, during the same period.

Managing the portfolio continues to be staff-intensive; more than 75 percent of the loans are in default. The Department, however, is moving forward with several measures to improve the quality and the consistency of its mortgage servicing. These measures include implementing an automated escrow administration procedure, which streamlines the payment of property taxes; reinstating the Interest Rate Reduction program, which should reduce the number of foreclosures in the portfolio and enable more mortgagors to keep their homes; and decentralizing the compromise offer and write-off procedures to further reduce the size of the portfolio.

Single-Family Property Inventory

During FY 1993, 64,734 properties were sold nationwide at an average sale price of $45,755. The program returned gross sales proceeds of $2.96 billion to the Mutual Mortgage Insurance Fund during that period. As of September 30, 1993, the Secretary-owned inventory was 30,946 properties.

The objective of the Single-Family Property Disposition program is to reduce the inventory of acquired properties in a manner that expands homeownership opportunities, strengthens neighborhoods and communities, and ensures a maximum return to the appropriate mortgage insurance fund.

Pre-foreclosure Sale Program (Demonstration)

A pre-foreclosure sale is a sale of property in which the lender agrees to accept the proceeds of the sale in satisfaction of a defaulted mortgage--even though the proceeds will be less than the amount owed on the mortgage--to avoid foreclosure. The lender then can file a claim with FHA and be compensated for the difference between the sale proceeds and the amount owed on the mortgage.

The twin objectives of meeting customer needs and mitigating losses that would otherwise be experienced by the FHA funds as a result of defaults and foreclosures are both served by the preforeclosure sale procedure. More than 1,300 families have benefited under the program by selling their homes and avoiding foreclosure. In addition, the demonstration has generated savings to HUD in excess of $3.9 million.

Single-Family Property Disposition Homeless Initiative

This program provides for direct sale or lease of Secretary-owned properties to private nonprofit organizations and government agencies serving the homeless population. Up to 10 percent of all Secretary-owned properties are made available to these agencies. Properties may be leased for $1 per year with an option to purchase and the possibility of a 4-year extension on a yearly basis. Properties also may be purchased at a 10 percent discount from the estimated fair market value.

During FY 1993, 536 properties were leased and 150 were sold to homeless providers. CPD field office staff estimate that more than 25,000 people have been housed in properties leased under this program, making it the largest program that HUD operates to house the homeless.

Housing Counseling

The Department's comprehensive Housing Counseling program provides counseling services to homeowners, home buyers, and tenants under a variety of housing programs. Field offices recruit public and private nonprofit entities to participate in the program. As of August 29, 1994, there were approximately 750 HUD-approved housing counseling agencies with offices in about 850 locations.

The Manufactured Home Construction and Safety Standards Program

Manufactured housing built to HUD standards provides affordable housing for many families each year and represents over 20 percent of all new single-family homes built over the past 5 years. During 1993, more than 250,000 new manufactured homes were built in 250 manufacturing facilities. More than 3 million HUD code manufactured homes have been built since the inception of the program in 1976.

Office of RESPA Enforcement

This Office administers the Real Estate Settlement Procedures Act (RESPA), which requires that the consumer receive certain disclosures concerning costs associated with the settlement of loans on single-family homes. RESPA also prohibits the payment of kickbacks and other valuables for the referral of real estate settlement business. During FY 1994, the Enforcement Office examined over 425 allegations of violations resulting in a caseload of more than 250 investigations and more than $1 million paid in settlements to the Department.

Multifamily Housing

The mission of the Office of Multifamily Housing is to expand housing choice and to support communities by helping partners raise capital for developing and preserving affordable housing. In order to do this, the Office established four major goals:

- Increase production of affordable rental housing by entering into partnerships with public and private entities to finance the purchase and improvement of existing housing;
- Improve management of FHA's portfolio of insured mortgages, Secretary-held notes, and Secretary-owned properties;
- Preserve the affordability of the existing stock of low- and moderate-income housing and improve its physical, financial, and social conditions; and
- Adopt organizational structures and management systems to help achieve the first three goals and make HUD more efficient and responsive to its customers.

Multifamily Insurance Activity

At the end of FY 1993, FHA's multifamily portfolio, excluding hospitals and nursing homes, included 14,131 insured properties comprising almost 1.7 million units with an outstanding balance of $36.2 billion. During FY 1993, FHA insured $2.8 billion in loans, developing more than 79,450 multifamily units in 411 projects. This was approximately a 40 percent increase over FY 1992 endorsements--$2.0 billion for 53,486 units in 312 projects.

The Office of Multifamily Housing began implementing new partnerships with public and private entities, which will bring new sources of capital to low-income housing, thus permitting FHA to share insurance risks with its partners and to increase the supply of low-cost housing without augmenting HUD resources. Some of these partnerships include risk-sharing agreements with State and local housing finance agencies, risk-sharing and reinsurance agreements with secondary market agencies, and a community investment demonstration with public and private pension funds.

Noninsured Multifamily Housing

At the close of 1993, the Office of Multifamily Housing had an inventory of 6,397 Section 202/811 housing projects totaling 305,000 units.

Secretary-Held Multifamily Mortgage Note Portfolio

As of September 30, 1993, Secretary-held multifamily mortgages, excluding health care facilities, consisted of 2,355 notes, with $7.58 billion in unpaid balances. The number of notes did not change from the end of FY 1992, and the unpaid balance rose slightly ($50 million).

At the end of FY 1993, 48 percent of the Secretary-held notes were current under their mortgage. These current mortgages account for 23 percent of the Secretary-held multifamily notes' outstanding principal balance.

Multifamily HUD-Owned Property Inventory

During FY 1993, 43 properties were sold nationwide at an average sale price of $874,000. The program returned gross sales proceeds of $38 million to the General Insurance Fund during that period. As of

September 30, 1993, the Secretary-owned inventory, excluding health care facilities, was 178 properties. The FHA fund's net investment in these properties as of September 30, 1993, was $818 million.

Costs of carrying the continuing Secretary-owned inventory are high. For properties sold in FY 1993, the average direct carrying cost per year was $390,000. The FHA fund paid more than $180 million in operating expenses and taxes for properties in inventory in FY 1993.

Congregate Housing Services Program

The Congregate Housing Services program provides at least one meal a day seven days a week, case management, personal assistance, housekeeping, transportation, and other supportive services to frail elderly and nonelderly disabled individuals. The individuals reside in 127 projects.

Service Coordinators

Service coordinators are currently funded in about 500 projects with special Section 8 funding. Service coordinators are members of the management team responsible for ensuring that the residents of Sections 8, 202, 221(d), and 236 housing for the elderly and disabled are linked with the supportive services they need in the community to ensure independent living.

Health Care Facilities

FHA's mission for health care facilities is to support the financing of a wide variety of such facilities in order to address the health care needs of the Nation while maintaining the sound record of these programs. The need for these facilities is increasing as the population ages, but financing sources have not kept pace. To carry out its mission, FHA must provide credit enhancement to make financing more widely available, especially to support projects that otherwise might not be financed by the private sector.

FHA administers three mortgage insurance programs for health care facilities:

- Section 242 for Hospitals, which insures loans for constructing acute-care hospitals and modernizing or expanding hospital facilities.

- Section 232 for Nursing Homes, Intermediate Care Facilities, and Board and Care Homes, which insures loans for new construction and substantial rehabilitation of nursing homes and related care facilities, and refinancing/acquisition of existing facilities that do not require substantial rehabilitation.

- Title XI for Group Practice Facilities, which insures loans for construction and substantial rehabilitation of medical and dental group practice facilities.

Health Care Insurance Activity

As of September 30, 1993, FHA's health care facilities mortgage insurance portfolio consisted of 1,071 projects with 149,687 beds and an unpaid principal balance of $12.1 billion. This portfolio consists of 115 hospitals, with 2,666 beds and an outstanding principal balance of $4.4 billion, and 956 nursing homes, with 147,021 beds and an outstanding principal balance of $7.7 billion.

Secretary-Held Health Care Mortgage Note Portfolio

On September 30, 1993, the FHA Secretary-held health care portfolio consisted of 54 projects for 7,526 units, with an outstanding unpaid principal balance of $273 million. The portfolio consists of 11 hospitals, with 1,401 beds and an outstanding balance of $113 million, and 43 nursing homes, with 6,125 beds and an outstanding balance of $160 million.

Health Care Property Portfolio

On September 30, 1993, the Secretary-owned health care property portfolio consisted of a 194-bed hospital, with a total investment of $4.6 million.

Improving Housing Program Delivery

In efforts to restructure FHA's programs, FHA has taken the following actions for single-family programs:

- Restructuring the assignment application process to give lenders authority to intervene earlier and facilitate mortgagor applications for assignment and other forms of relief.

- Adopting special marketing incentives to assist in the sale of single-family acquired properties. In addition, the Office of Single-Family Housing adopted changes to financing closing costs that further assist individuals and families, particularly those with limited incomes, to purchase a HUD home.

- Proposing a streamlined method for loan-to-value calculations to eliminate confusion.

- Expanding the Credit Alert Interactive Voice Response System (CAIVERS) to include default data on loans guaranteed by FmHA, the Department of Veterans Affairs (VA), the Department of Education, and the Small Business Administration.

- Sought authority to permit delegated endorsements by lenders who have proven track records, which will allow endorsements to be processed quickly even when mortgage activity is high. This authority would permit flexibility to redirect HUD staff resources into critical monitoring functions.

Working with industry groups, the Office of Multifamily Housing developed a strategy that includes the following:

- Reducing Secretary-owned and Secretary-held inventories to permit staff to concentrate on stabilizing the insured portfolio and preventing further defaults, assignments, and property acquisitions. These initiatives include the following:

  - Reducing Secretary-held mortgage note portfolio through note sales; and

  - Reducing Secretary-owned property inventory by getting increased Section 8 funding for sales and legislative changes that give FHA more flexibility in structuring subsidy and sales terms.

- Aggressively pursuing debt restructurings, using traditional refinancings, bond refundings, and workout agreements.

- Redesigning and expanding servicing tools to make them more effective and easier to use, such as

  - Implementing a new workout agreement policy;

  - Using project needs assessments as a basis for awarding flexible subsidy and Section 8 loan management set-aside assistance;

  - Seeking legislation expanding civil money penalties; and

  - Making better use of existing enforcement tools.

- Improving staff effectiveness through

  - Empowerment, streamlined reporting, and training;

  - Better procedures, consolidated functions, and redesigned processes;

  - Contractor support for critical functions where staff resources are limited; and

  - Automated systems that give the information needed.