



U.S. Department of Housing and Urban Development  
**Office of Inspector General**  
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Washington, D.C. 20410

**NOV 20 2007**

MEMORANDUM FOR: Nelson Bregon, Assistant Deputy Secretary for Disaster Policy and Recovery, SD

*Kenneth M. Donohue*

FROM: Kenneth Donohue, Inspector General, Office of Inspector General, G

SUBJECT: Final Report on the Review of HUD's Performance in the Gulf Coast

Attached is the final report on our review of HUD's Performance in the Gulf Coast as a result of the hurricane disasters. We thank you for your written comments and have attached the response to the end of the report. The report was revised after consideration of your comments and supporting documentation.

This report contains no formal recommendations. We appreciate the courtesies and cooperation extended to OIG audit and investigative staffs during the conduct of the review.

Attachment

*Department of Housing and Urban Development*

*Office of Inspector General*

*Office of Audit/ Office of Investigations*



**Review of HUD's Performance in the Gulf Coast**

## *Executive Summary*

Prior to Hurricane Katrina's landfall on August 29, 2005 in the Gulf Coast, the U.S. Department of Housing and Urban Development (HUD) took action to prepare for its response to the hurricane and mobilized resources. This report looks at the actions that HUD took after the hurricane. It addresses the purpose of the funding by Congress and how HUD administered the funds as well as how HUD worked with the Federal Emergency Management Agency (FEMA).

We reviewed the work that HUD conducted in its four major program areas to include Community Planning and Development including the Community Development Block Grants disaster funding, Public and Indian Housing including the temporary housing assistance programs, Single Family Housing, and Multifamily Housing. We also briefly summarize activities in Other Program areas.

Overall we determined that HUD took prompt action to assist in the aftermath of the Gulf disaster by enacting the Continuity of Operations Plan, establishing task forces, putting a moratorium on foreclosures, redirecting already programmed funds, and partnering with FEMA to assist the evacuees and address infrastructure needs. HUD took immediate and continuing action by helping HUD's assisted housing families and the homeless, worked closely with the states to approve their action plans, and generally made funds available in a timely manner.

The Office of Inspector General (OIG) identified areas in which HUD could have improved in its efforts regarding Gulf Coast assistance, which would help in future disaster situations. These areas include better and consistent coordination between the various program offices handling disaster issues and better communication between HUD's headquarters and its field offices. OIG also recommends that HUD comply more closely with the appropriate requirements regarding preparing an oversight report for Congress.

## *Acronyms List*

<b>FEMA</b>	Federal Emergency Management Agency
<b>FHA</b>	Federal Housing Administration
<b>HUD</b>	U.S. Department of Housing and Urban Development
<b>IRS</b>	Internal Revenue Service
<b>OIG</b>	Office of Inspector General

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## **Background**

The 2005 hurricane season was devastating to the United States of America. On August 29, 2005, Hurricane Katrina hit the Gulf of Mexico states of Louisiana, Mississippi, Florida, and Alabama. On September 24, 2005, Hurricane Rita impacted southeast Texas and southwest Louisiana. Hurricane Wilma then hit the state of Florida on October 24, 2005. Hurricane Katrina was the most destructive natural disaster in U.S. history. The overall destruction wrought by Hurricane Katrina, which was both a large and powerful hurricane and a catastrophic flood, vastly exceeded that of any other previous major disaster in the United States.

The U.S. Department of Housing and Urban Development (HUD) had 85 employees that were directly affected by the hurricanes; the office in New Orleans was closed on August 27, 2005, and did not reopen until November 1, 2005. On August 29, 2005, the President made a Presidential Disaster Declaration. This Presidential Disaster Declaration put into motion federal recovery programs designed to help victims of hurricanes, earthquakes, floods, tornados, other severe weather or major fires, which the President determined warranted supplemental federal aid. The Federal Emergency Management Agency (FEMA) and other agencies, including HUD, immediately deployed to assist in the emergency response.

The devastation in the Gulf Coast significantly impacted HUD's programs and HUD's assisted housing families. In the Presidential Disaster Declaration, HUD's Federal Housing Administration (FHA) Single-Family Insurance Fund insured more than 328,000 mortgages with an outstanding mortgage balance of \$23 billion. FHA's multifamily program in the disaster area insured 859 properties comprising 116,000 units with an outstanding mortgage balances tallying of \$3 billion. The hurricanes affected 79 Government National Mortgage Association (Ginnie Mae) issuers, causing Ginnie Mae to assess a \$500 million risk of loss to its investment portfolio. Further, assets of HUD's assisted housing program suffered tremendous damage, affecting housing for almost 120,000 families.

## **HUD's Immediate Actions**

### **Continuity of Operations Plan**

Prior to Hurricane Katrina's landfall, the HUD Secretary directed the establishment of a working group to prepare for possible problems related to the hurricane. On August 31, 2005, the HUD Deputy Secretary activated the continuity of operations plan for the New Orleans office. All of HUD's New Orleans operations were transferred to the HUD Fort Worth Regional Office. HUD attempted to contact all New Orleans HUD employees through e-mail, telephone, radio, and television announcements. HUD personnel were standing by to assist and answer any disaster-related questions. The Jackson, MS, office resumed operations on August 31, 2005. The National Finance Center in New Orleans, Louisiana, moved the HUD magnetic tapes containing its most recent payroll data to its

alternate site in Philadelphia, PA. The continuity of operations plan remained in effect for the New Orleans office until November 1, 2005.

HUD OIG notes that the continuity of operations plan was not activated until two days after Hurricane Katrina struck.

### **Task Force Actions**

On September 7, 2005, the HUD Secretary directed the establishment of HUD's Hurricane Recovery and Response Center. This emergency management center served as a command post for HUD efforts and was staffed with housing professionals from every program office including Housing, Public and Indian Housing, Community Planning and Development, General Counsel, and Public Affairs. The Hurricane Recovery and Response Center reported directly to the Secretary and operated at HUD headquarters. During the first two weeks following Katrina, almost 100 HUD volunteers were deployed to the Gulf Coast region for disaster recovery work. On September 1, 2005, HUD joined with FEMA to establish the Joint Housing Solutions Center, located in Baton Rouge, LA. The Joint Housing Solutions Center focused on combining federal resources with private sector, nonprofit, and faith-based efforts. Also, the Hurricane Recovery and Response Center dispatched 45 HUD specialists with expertise in manufactured housing, reconstruction, and community planning. The Hurricane Recovery and Response Center was also designed to be the central location where field offices could call to get information regarding hurricane related issues.

Shortly after being established, the Hurricane Recovery and Response Center directed the HUD field offices to conduct a nationwide survey of vacant rental housing units in HUD and FHA housing programs. This effort identified more than 20,000 units of multifamily housing that were made available to displaced families through FEMA, starting on September 5. On September 12, 2005, an interagency agreement was signed between HUD and FEMA. The interagency agreement set forth the conditions and a protocol for the transfer of HUD Real Estate Owned properties, held off the market and made available to FEMA for displaced families, and identified and made available 5,600 single-family (HUD-owned) homes within a 500-mile radius of the Gulf Coast.

Twelve weeks after the hurricane, the Hurricane Recovery and Response Center evolved into HUD's Assistance and Recovery Team. This office consisted of senior HUD officials who served as senior advisors to the Secretary and Deputy Secretary on matters related to the Department's hurricane response. This team coordinated all HUD deployment with FEMA, ensuring that program offices fulfilled their mission assignments, as well as coordinating policy decisions. According to HUD officials, the end date of HUD's Assistance and Recovery Team task force was the date of their last meeting, which occurred in August 2006.

Even with the successes of the Hurricane Recovery and Response Center and HUD Assistance and Recovery Team as indicated above, there was a lack of communication and coordination with field office personnel. Because hurricane related management

decisions were coming from headquarters in Washington, DC, the field office management could not coordinate in their normal manner, with state and local officials.

### **Field Policy and Management**

After the disaster, the Office of Field Policy Management provided staff resources for Disaster Recovery Centers and the local one-stop centers throughout the Gulf Coast region, as well as, initiating housing counseling sessions. As reported by HUD, the Office of Field Policy and Management staff provided coverage for 135 FEMA Disaster Recovery Centers and local one-stop centers throughout the affected region from immediately following the hurricane until January 2006. These centers were established to facilitate assistance to the public during the recovery efforts. Staff gave on-site referrals of individuals and families to specific assistance sources and acted as a liaison with state and local partners to ensure effective service delivery. Further reported by HUD, the Office of Field Policy and Management staff initiated housing counseling sessions, using both local counseling agencies and HUD program staff, to assist families in the purchase of homes in their new communities. Beyond the fundamentals of the home buying process, evacuees were also advised of their eligibility under HUD's 203(h) and other mortgage insurance programs.

### **FEMA Mission Assignments**

HUD received eight mission assignments (Appendix B) from FEMA at a total cost of \$83 million for disaster recovery efforts relating to the 2005 Hurricanes Katrina and Rita. For the most part, the mission assignment objectives were to provide HUD with reimbursement for overtime and travel expenses for HUD personnel sent to the Gulf Coast region to assist in the recovery efforts. One of the mission assignments, however, Katrina Disaster Housing Assistance Program, made up 95 percent (\$79 million) of the all the FEMA-supplied funding. The assistance provided by HUD included the following:

- Housing strike team deployment
- Deployment of HUD staff to joint FEMA field offices
- Technical assistance for recovery and rebuilding
- Transitional housing

The Katrina Disaster Housing Assistance Program was established to provide up to three-months' transitional housing for displaced public assistance residents. HUD and FEMA realized the complexity of this program and established an interagency agreement for the program, which was more detailed than the normal mission assignment agreement. HUD also met FEMA's requirements for submitting all final billings within 90 days of completion of the mission assignment. The final bills were identified as a



“Final Billing” for any costs to be reimbursed HUD and no major problems were identified.

HUD/OIG attended the weekly tracking meetings, reviewed FEMA’s spending report and relayed the status of briefings to HUD OIG management. In addition, HUD/OIG determined that HUD had adequately established a separate system for accounting of all mission assignment expenditures and met all requirements of the interagency agreement with FEMA.

### **Reprogramming Existing HUD Funds**

In its response to Hurricane Katrina, HUD announced several steps to assist hurricane victims and issued a regulatory waiver that permitted a grantee to immediately reprogram the use of operating funds by reducing the comment period for amendments from 30 days to 3 days. According to this fungibility<sup>1</sup> waiver, Community Development, HOME Investment Partnership, and Emergency Shelter Grant grantees could reprogram previously awarded grants to disaster recovery activities, upon approval by HUD.

In 2005, HUD had \$29.7 million in the Capital Fund Reserve for Emergencies and Natural Disasters (Capital Fund Disaster Grants). These funds were fully obligated by HUD for three of the Public Housing Authorities that were struck by Hurricane Katrina. Funds were awarded to the following:

- HUD awarded and funded a \$21.8 million Capital Fund Disaster Grant to the Housing Authority of New Orleans to repair and rebuild damaged public housing. The primary activities for this grant are: relocating public housing residents forced to evacuate; securing dwelling structures damaged by the hurricane; and completing repairs to dwelling structures that were damaged. As of July 18, 2007 the Public Housing Authority (PHA) has expended \$11.5 million.
- HUD awarded and funded a \$7.8 million Capital Fund Disaster Grant to Biloxi Mississippi Housing Authority to repair and rebuild damaged public housing. The primary activities for this grant are: relocating public housing residents forced to evacuate; and securing dwelling and non-dwelling structures damaged by the Hurricane. As of 7/18/2007 the PHA has expended \$5.2 million.
- HUD awarded and funded a \$75 thousand Capital Fund Disaster Grant to Parrish Housing Authority to repair and rebuild damaged public housing. The PHA has fully expended this grant.

HUD redirected funds to assist local victims of the hurricanes. HUD is commended for facilitating the delivery of available funds.

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<sup>1</sup> “Fungibility” or “Funge” is defined as the ability to combine funds from one or more programs and use them for eligible purposes under other programs

## **Office of Community Planning and Development**

### **Waivers**

The Office of Community Planning and Development issued waivers for more than 40 requirements very shortly after the disaster. Office of Community Planning and Development issued a series of waivers for the HOME Investment Partnership program. This included self-certification of income, elimination of the match requirement, and greater flexibility in the use of HOME Investment Partnership and American Dream Down payment Initiative funds. These were to help low-income Louisianans receive tenant-based rental assistance and rehabilitate and buy homes. Office of Community Planning and Development issued a series of waivers for the Community Development Block Grant program, the Emergency Shelter Grant program, and the Housing Opportunities for Persons with AIDS program. Office of Community Planning and Development also issued waivers that allowed Community Development Block Grant and HOME Investment Partnership grantees to reprogram previously awarded grants to redirect their focus to disaster recovery activities. In total, HUD has granted more than 120 waivers to statutory and regulatory requirements based on 12 notices (Appendix C) to facilitate recovery. The Emergency Supplemental Appropriations Act requires HUD to waive any statutory requirement except for requirements related to fair housing, nondiscrimination, labor standards, and the environment.

### **Supplemental Funding**

On December 30, 2005, Congress approved \$11.5 billion to HUD to assist five Gulf Coast states with restoration and recovery from the 2005 hurricane season. On June 15, 2006, Congress approved an additional \$5.2 billion to the HUD Community Development Block Grant program for the five Gulf Coast states for necessary expenses related to disaster relief, long-term recovery, and restoration of infrastructure in the most impacted and distressed areas related to the consequences of Hurricanes. From this supplemental appropriation, as requested by the President, HUD allocated to the State of Louisiana the statutory maximum of \$4.2 billion, making \$973 million available to address the disaster recovery needs of Alabama, Florida, Mississippi, and Texas.

### **Action Plans**

Office of Community Planning and Development's Office of Disaster and Special Issue Division expedited the approval and release of funds for the states to quickly administer their disaster Community Development Block Grant programs. Generally, HUD has approved most states' action plans, amendments, and/or modifications within three weeks after receipt. In addition, funds have been released or modified in the Line of Credit Control System within three business days of approval.

### **First Emergency Supplemental Major Action Plans**

- Louisiana's action plans were approved on May 9, 2006.
- Mississippi's action plans were approved on April 3, 2006.
- Alabama's action plans were approved on May 1, 2006.
- Texas' action plans were approved on May 22, 2006.
- Florida's action plan was approved on July 26, 2006.

### **Second Emergency Supplemental Major Action Plan**

- Louisiana's action plans were approved on May 24, 2007.
- Mississippi's action plans were approved on June 22, 2007.
- Alabama's action plans were approved on March 6, 2007.
- Texas' action plans were approved on April 13, 2007.

There has been considerable attention on Louisiana's initial action plan that was approved on May 9, 2006, as well as amendment number 1, referring to the Road Home Housing Program as a repair and rebuild program. A year later on May 14, 2007, amendment number 14 was approved, which changed the direction of the program from a repair and rebuilding program to one that is providing compensation to homeowners for damages to their homes as a result of Hurricanes Katrina and Rita.

HUD did work closely with the Gulf Coast states throughout the action plan process. Once received, they approved their action plans in accordance with congressional requirements and made funds available in a timely manner. However, the local HUD Office of Community Planning and Development offices, which are most familiar with the local responsible state officials, were not part of the action plan process.

### **Disaster Recovery Grants Report System**

The Disaster Recovery Grants Report System is an automated reporting system used by HUD to receive summary reports of disaster grant progress and performance by grantees, in this case the states. It requires manual input by the state/grantee and is updated by the states and reviewed by HUD on a quarterly basis. This automated system consists of two kinds of "documents" per grant: an Action Plan with budget, timing, narrative scope, and performance measure goals by activity; and a series of quarterly reports containing actual obligations, drawdowns, and expenditures of grant funds by activity, actual performance measures achieved, and status narratives. As the grantee sets up an activity in the system, it generates a performance measures table for each activity to show what the activity is expected to produce and that a Community Development Block Grant national program objective will be met.

It is common for states to submit a general action plan initially. Then, as the state implements its method of distribution, it will amend the action plan in the Disaster Recovery Grants Report system to show funding details project by project (not jurisdiction by jurisdiction). The performance report breaks the activities into further

detail; for instance, the Louisiana Road Home homeowner program is separated into four different subactivities to provide further detail to program monitors. Generally 37 days after the end of each calendar quarter, HUD headquarters can draw data from Disaster Recovery Grants Report system. These data should serve as the basis of the quarterly report to the Congress.

## **Office of Public and Indian Housing**

### **Katrina Disaster Housing Assistance Program**

On September 30, 2005, FEMA and HUD executed a mission assignment, tasking HUD with implementing the \$79 million Katrina Disaster Housing Assistance Program. The Office of Public and Indian Housing issued guidance over time to the nation's more than 3,000 public housing authorities on how to assist displaced public housing residents. The program provided housing vouchers for (a) evacuee households that were previously receiving public housing assistance and (b) evacuees who were homeless prior to the hurricane. Individual vouchers were calculated at 100 percent of the fair market rent in any community that the evacuee selected, and eligible evacuees qualified for initial rental assistance payments for up to 18 months. HUD created a referral call center for landlords, public housing authorities, and tenants to contact for assistance. HUD also created the Disaster Information System to collect information on families receiving assistance under the program.

### **Disaster Voucher Program**

The first emergency supplemental appropriation also included \$390 million for housing vouchers for households within the area declared a major disaster under the Robert T. Stafford Disaster Relief and Emergency Act. These funds are limited to those households, which, prior to hurricanes Katrina or Rita, received HUD housing assistance (e.g. Section 8). Funding for this program is to remain available until September 30, 2007.

The Katrina Disaster Housing Assistance Payment Program, which was funded by FEMA and operated by HUD, expired on January 31, 2006. That program was replaced by the HUD funded Disaster Voucher Program. The Disaster Voucher Program, which covers housing costs for families who lived in public housing or received other HUD rental assistance but were displaced by the hurricanes, was originally scheduled to end on September 30, 2007. An extension was granted to provide assistance to displaced residents until June 30, 2008. No additional families, however, were to be admitted to the Disaster Voucher Program after September 1, 2007.

Through HUD reporting, the OIG was made aware that families and public housing authorities continue to use the Referral Call Center. HUD reported that the Referral Call Center received more than 100,000 inquiries that have been addressed. HUD further reported that they used more than 300 public housing authorities to assist approximately

28,000 families, and HUD has obligated \$280 million in Disaster Voucher Program funds to these agencies. The tally as reported by HUD as of July 2007, almost 12,000 families are receiving assistance through Disaster Voucher Program.

HUD's Office of Public and Indian Housing has executed a favorable response to the hurricanes and assisting FEMA in housing hurricane evacuees. HUD OIG audited the Katrina Disaster Housing Assistance Program and Disaster Voucher Program. The audit objective was to evaluate the adequacy of the two programs' operational procedures and controls. HUD OIG only noticed minor mistakes in the operational procedures and controls review and did not disclose any major findings. There is a second phase of the review underway to address recipient eligibility and duplication of benefits.

### **Disaster Housing Assistance Program**

On August 1, 2007, the Office of Management and Budget (OMB) approved FEMA's request for a waiver granting administrative processes for the pilot program, Disaster Housing Assistance Program. The Disaster Housing Assistance Program, as a continuation of the Disaster Voucher Program, provides for the immediate need for housing assistance that disaster-displaced families face, relieving FEMA of this responsibility. HUD, through an Interagency Agreement with FEMA will administer the Disaster Housing Assistance Program. FEMA will obligate grant funds directly to public housing authorities.

FEMA will provide HUD the resources for up to 18 months of rental assistance and case management services for approximately 45,000 families as determined by FEMA at a total estimated cost of \$565 million. The Office of Public and Indian Housing plans to contract out three types of services: 1) family call center, 2) project management; and 3) case management oversight. The Office of Public and Indian Housing also will assign 21 full-time equivalent employees to manage the program. The highest concentration of assisted families will be in Houston, Dallas-Ft. Worth, and New Orleans. Six hundred sixty-three public housing authorities will be involved, with most managing five families or fewer. Each public housing authority has the incentive by HUD to take (convert) a family into permanent public housing authority housing. Forty-five hundred families are in New Orleans. The referral call center and the Disaster Information System are still being used in the Disaster Housing Assistance Program.

The Office of Public and Indian Housing has worked closely with FEMA to assist current displaced families and established a relationship for the future. OMB approved HUD to administer the Disaster Housing Assistance Program, due to HUD's experience in administering the Section 8 program.

## **Public Housing Reconstruction**

HUD reported there were over 60 public housing agencies with over 6,000 public housing units damaged, destroyed or rendered uninhabitable after Hurricane Katrina. In July 2007, HUD reported that over 3,500 units have been repaired by public housing authorities.

HUD has funded various public housing authorities in a variety of ways. The Office of Public and Indian Housing has funded public housing authorities directly with current HOPE VI program funds assigned before the Hurricane struck. They have also provided funding through the Capital Fund Reserve for Emergencies and Natural Disasters (Capital Fund Disaster Grants), and through Section 8 funds converted to other uses through authority granted in one of the supplemental appropriations. Some public housing authorities also received Community Development Block Grant funds from the state they are located in. These are identified in state action plans approved by HUD. The four program awards to public housing authorities are outlined below:

### **Community Development Block Grant Funds to Public Housing Authorities**

The Housing Authority of New Orleans was awarded approximately \$100 million in Community Development Block Grant funding by the State of Louisiana for the redevelopment of four major public housing sites: Lafitte, B.W. Cooper, C.J. Peete and St. Bernard.

HUD approved Mississippi's public housing assistance program for \$100 million to restore public housing units. The state reported that more than 2,500 public housing units in southern Mississippi were damaged or destroyed. HUD also approved an increase of \$5 million to enable the state to hire a contractor to oversee and administer the \$100 million provided to Public housing authorities located in the cities of Biloxi, Bay St. Louis, Waveland, and Long Beach, and in counties of Harrison, Hancock and Jackson.

### **HOPE VI Program Funds to Public Housing Authorities**

The Housing Authority of New Orleans continues to operate under HUD receivership. The authority is using previously awarded HOPE VI program funds to rebuild Abundance Square and Treasure Village, two public housing projects at the Desire site destroyed by the Hurricane. The Housing Authority of New Orleans is also using HOPE VI program funds for River Garden, formerly known as St. Thomas Development, and for Fischer IV. The Housing Authority of the City of Biloxi is using HOPE VI program funds to repair and rebuild Cadet Point, Bayview Place, and Bayview Oaks.

### **Capital Fund Reserve for Emergencies and Natural Disasters to Public Housing Authorities**

Capital fund disaster grants in the amount of \$29.7 million were awarded to the Housing Authority of New Orleans, Biloxi Mississippi Housing Authority, and Parrish Housing

Authority in Alabama to secure, repair and rebuild damaged public housing, and relocate residents forced to evacuate. The Housing Authority of New Orleans was awarded \$21.8 million, the Biloxi Mississippi Housing Authority \$7.8 million, and the Parrish Housing Authority \$75,000.

### **Fungibility Funding of Public housing authorities**

HUD approved \$144 million in Section 8, public housing capital, and operating funds made available under authority granted in one of the supplemental appropriations for eight public housing authorities. These funds are being used for disaster purposes, similar to Capital Fund Disaster Grants. \$27.3 million was made available to five Mississippi Public housing authorities: Long Beach public housing authority, Mississippi Regional VIII (Harrison County) Public Housing Authority, Biloxi Public Housing Authority, Mississippi Regional V (Newton County) Public Housing Authority, and Mississippi Regional VII (Pike County) Public Housing Authority. \$116 million was made available to three Louisiana Public housing authorities: Housing Authority of New Orleans, Jefferson Parish Housing Authority, and Lake Charles Housing Authority.

### **Office of Single Family Housing**

#### **Mortgage Assistance**

FHA initially urged approved lenders to provide forbearance to FHA borrowers displaced by the disaster and unable to make regular monthly payments. On August 31, 2005, HUD provided for the first 90-day foreclosure relief for FHA borrowers in Presidential Disaster Declaration areas impacted by Hurricanes Katrina, Rita and Wilma. On November 22, 2005, the HUD Secretary extended foreclosure moratoriums an additional 90 days to February 28, 2006, in those counties declared eligible for individual assistance as a result of the hurricanes. FHA advanced mortgage payments for up to 12 months for eligible borrowers who are committed to continued occupancy of their homes as a principal residence and are expected to have the financial capacity to repair storm damage and resume making full mortgage payments within a 12-month period. This unprecedented mortgage relief was expected to help up to 20,000 families seriously impacted by the hurricanes to retain homeownership while they concentrate on repairing their homes and finding jobs. The number of families taking advantage of this program totaled 770 as of July 27, 2007.

On October 12, 2005, HUD introduced a special mortgage program called Section 203(h). Under this program, FHA insures mortgages for individuals or families in a Presidential Disaster Declaration whose residences was destroyed or damaged to such an extent that reconstruction or replacement is necessary. Borrowers must be able to qualify for FHA mortgages, but they will not be required to make a down payment. In addition, mortgage insurance premiums can be financed into the mortgage amount, so only minimal closing costs are required. An added benefit of the 203(h) mortgages is that they

can be used anywhere in the United States. The limits on the size of the mortgage amount are up to \$312,895, depending on the average sales price in the area.

Soon after the President declared the Gulf Coast a “major disaster,” HUD provided disaster assistance to holders of FHA-insured mortgages by issuing mortgagee letters. HUD issued Mortgagee Letter 2005-33 on August 31, 2005. This letter placed a moratorium on FHA foreclosures for properties located in the Presidential Disaster Declaration for a period of 90 days. The letter also relaxed some of the requirements of Section 203(k) rehabilitation mortgages, allowing owners of damaged residences to quickly obtain loans for repairs. HUD issued Mortgagee Letter 2005-45 on November 22, 2005. This letter extended the moratorium on FHA foreclosures for properties in the Presidential Disaster Declaration until February 28, 2006. In addition, HUD issued Mortgagee Letter 2005-46 on December 1, 2005. In this letter, HUD provided special authority for the use of partial claims and loan modifications to assist FHA borrowers located in the Presidential Disaster Declaration. In essence, this allowed mortgagees to advance funds on behalf of borrowers in an amount necessary to reinstate a defaulted loan (not to exceed the equivalent of 12 months worth of principal, interest, taxes, and insurance). It also allowed mortgagees to file a partial claim for the amount of the advanced funds. The special authority in this letter was only available for the 18-month period effective with the date of the letter.

### **Real Estate Owned Properties**

In September 2005, HUD provided interim rental housing to many families in the form of HUD-owned properties. These real estate owned properties were made available for disaster victims under the Temporary Housing Assistance Program of the Robert T. Stafford Disaster Relief and Emergency Assistance Act following Hurricanes Katrina and Rita. The program was designed to provide people whose homes have been damaged by disaster a temporary place to live until repairs can be completed or a permanent housing solution is identified. The program is available only to homeowners and renters who are legal residents of the United States and who had been displaced by the disaster.

HUD reported initially that 6,500 houses of HUD-owned properties were taken off market, which 1,900 of those houses were rehabbed and made ready for the evacuees. These HUD-owned properties were located in 11 states: Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, Oklahoma, South Carolina, Tennessee, and Texas. To get the homes ready for the evacuees, HUD contracted with 7 management and marketing firms responsible for properties in the 11 state area. As reported by HUD, there are currently more than 1,500 families still occupying the REO properties.

Further, this program offers these families an opportunity to purchase the homes they are currently occupying at a discount of ten percent off the property's fair market value. Additionally, HUD will help current tenants pay for property repairs by funding a repair escrow equal to 15% of the contract price. HUD reported, as of July 13, 2006, that they sold 150 homes to evacuees leasing HUD-owned homes and sold another 170 properties



to non-tenant evacuees. HUD also reported that in an effort to assist these homebuyers with their purchases, HUD has made 100 percent financing available using its 203(h) loan program.

### **Office of Multifamily Housing**

As reported by HUD in their “Katrina Accomplishments – Two Years Later” report, HUD implemented several policies and programs to assist lenders, property owners, and residents in providing immediate relief to displaced residents and simultaneously assess the impact on the FHA multifamily inventory. HUD Notice 04-22 and Mortgagee Letter 2004-39 were implemented to address requests for waivers from handbook and notice requirements. They also set priorities for permanent rental housing, allowing multiple occupants in a unit, and establish other guidance on project-based Section 8-assisted housing. The Chief Information Officer also identified available units (vacancy) in HUD’s National Housing Locator to assist evacuees in identifying available housing resources. There were 1,054 properties with 82,404 units of HUD-assisted and/or -insured multifamily housing units in the affected region (Alabama, Mississippi, and Louisiana).

Overall, of the 82,404 units, there were approximately 76,000 units (or 92 percent) that were fully operational. As an immediate plan of action, the Office of Multifamily Housing implemented a three-phase process for accessing and restoring properties in the disaster-impacted area. These phases were as follows:

- Property and resident assessment
- Restoration planning and financing
- Completion and reoccupancy

As reported by HUD, phases I and II have been successfully completed in all affected areas and Phase III remains underway as shown in the chart below. Insurance settlement, infrastructure, and services have impacted participants’ ability to complete Phase III in some geographical areas. HUD continues to assist program participants in the completion and reoccupancy process. Owners are communicating with displaced residents to provide notification of rehabilitation/repair completion for their right of return.

According HUD housing officials, housing assistance payments were initially being made to the Gulf Coast property owners until a recertification process could be performed. Due to a low tenancy rate and vacant units in the months that followed the disaster, HUD stopped making these housing assistance payments after the October 2005 payment and then began suspending the housing contracts. In addition, Multifamily began; working with FEMA, tracking tenants, and contacting former tenants to determine their location and their plans to return. Multifamily also began developing automated reports to ensure that dual benefits were not being paid out by HUD and FEMA, and within HUD between Housing and Public and Indian Housing.

## **Other Programs**

### **Government National Mortgage Association (Ginnie Mae)**

In an effort to minimize the economic hardship for those persons affected by the severe storms and flooding, Ginnie Mae encouraged all single-family, manufactured housing, and multifamily Ginnie Mae issuers to provide forbearance to mortgagors in areas declared a disaster in Alabama, Mississippi, Louisiana, and Florida by the President. Ginnie Mae realized that with the massive destruction of property and the temporary loss of jobs, many individuals experienced severe economic and personal hardships. Ginnie Mae was prepared to assist issuers holding mortgage loans in the affected areas in making their Ginnie Mae pass-through payments.

Also, in continuing support for victims of Hurricane Katrina, Ginnie Mae temporarily expanded its Targeted Lending Initiative to include counties in the Presidential Disaster Declaration. Targeted Lending Initiative status will apply to those areas identified as eligible for individual assistance within the respective counties. This unique program for the disaster was set up for 48 months to run from October 1, 2005, through September 1, 2009.

As a result of these initiatives, Ginnie Mae had the following impact:

- Regarding the forbearance program, Ginnie Mae provided significant assistance to an important local lender that helped the lender survive the disaster, rebuild its business, and continue to provide an important source of funds to the area.
- Regarding the Targeted Lending Initiative program, between October 2005 and June 2007, Ginnie Mae securities receiving this Targeted Lending Initiative discount included 7,970 loans from the Hurricane Katrina census tracts with original principal balances of \$1.014 billion.

### **Policy Development & Research**

HUD economists in the Office of Policy Development and Research analyzed and determined that State of Louisiana rental-housing markets in the New Orleans and Baton Rouge metropolitan areas had experienced rent increases due to Hurricanes Katrina and Rita. The physical damages of the rental inventory had caused an increased demand on the remaining rental inventory. HUD increased the fair market rents in New Orleans by 35 percent and in Baton Rouge by 25 percent. The Office of Policy Development and Research maintained upward adjustment factors in HUD's published Fiscal Year 2008 fair market rents estimates of 15 percent in Baton Rouge's HUD metro fair market rents area, and 35 percent in the New Orleans-Metairie-Kenner metropolitan statistical area. HUD monitors rental markets in other gulf coast disaster areas of Beaumont-Port Arthur, Dallas, Jackson, Houston, Little Rock, San Antonio, and Shreveport. These areas have

been housing significant numbers of hurricane evacuees. HUD will determine whether the reduction in rental vacancies in these markets will need increases in fair market rents.

The Office of Policy Development and Research awarded 16 grants over \$5 million for the University Rebuilding American Partnerships initiatives. These initiatives are the Community Design program and the Historically Black Colleges and Universities Program. HUD established the University Rebuilding American Partnerships programs in response to the hurricanes. Grants are made to colleges and universities to assist communities in the gulf coast region. In addition, HUD also allowed gulf coast institutions that sustained damage to apply for up to \$2 million to restore their campuses. Xavier University of Louisiana and Dillard University were awarded a total of \$4 million.

### **Fair Housing and Equal Opportunity**

Immediately following Hurricane Katrina, HUD's Office of Fair Housing and Equal Opportunity deployed a cadre of equal opportunity specialists to Louisiana and Mississippi to conduct an aggressive fair housing education and outreach campaign throughout the Gulf Coast region and to directly assist evacuees who reported housing discrimination. Fair Housing and Equal Opportunity staff visited more than 60 Disaster Relief Centers and Long-Term Recovery Centers, where Center personnel received instruction on identifying housing discrimination issues and contacting HUD for assistance.

### **Faith-Based Community Initiative**

The Center for Faith-Based and Community Initiatives held weekly teleconference calls with HUD's 10 regional faith-based and community liaisons to coordinate the Center's national resources and disseminate relevant information from the daily HUD Assistance And Recovery Team calls. The Center for Faith-Based and Community Initiatives expanded its affordable housing pilot project to include Houston and Tampa.

### **Gulf Opportunity Zone**

Of the seven hurricanes that made landfall in 2005, six came ashore along the Gulf Coast. As a result, Congress responded and passed the Gulf Opportunity Zone Act of 2005 (the "GO Zone Act"). The Gulf Opportunity Zone Act of 2005 is set-up to provide support to individuals and businesses impacted by hurricanes Katrina, Rita and Wilma. The essence of the program is that the government has established a series of financial incentives to promote investment by the private sector in the Gulf Coast rather than relying on a public building campaign solely financed with public funds. The legislation also provides tax and other financial incentives for businesses participating in the rebuilding and restoration of the region.

Congress has established that HUD and the Internal Revenue Service (IRS) will be partners in this program. As reported by HUD, the accomplishments include the following:

- held nine workshops that were co-hosted by Alabama, Louisiana, Mississippi, and Texas communities
- identified and explained the \$8.6 billion in Gulf Opportunity Zone benefits, and
- discussed the \$1.1 billion in Renewal Community benefits available to stimulate local reinvestment and new investment, and
- provided information on the 26 Gulf Opportunity Zone tax incentive provisions.

HUD also reported that they are working jointly with the IRS on the Earned Income Tax Credit and media outreach to promote usage of the Gulf Opportunity Zone incentives. HUD's participation in this endeavor is that of a facilitator.

If this legislation is used properly, the program has a potential to have an impact for both the Go Zone region and for the investors who help rebuild it.

### **HUD Oversight and Reporting**

#### **Community Development Block Grant Monitoring Contract**

Congress has charged HUD with the responsibility for compliance oversight of the grant activities and to minimize the risk of fraud, waste, and mismanagement. As a result, HUD identified a need for advisory and assistance services to provide sufficient oversight of the control and delivery of Community Development Block Grant disaster funds to ensure that they are properly used in accordance with grant terms, conditions, and performance plans. HUD is currently in the process of selecting a contractor. The services to be provided for under this contract are intended to be a key element of HUD's efforts to fulfill that congressional mandate. The anticipated length of the proposed contract is one year, with an estimated contract value ranging from \$500,000 to \$750,000.

#### **Office of Disaster Policy & Response**

On May 22, 2007, the HUD Deputy Secretary announced the appointment of an Assistant Deputy Secretary for Disaster Policy and Response. The purpose of this office, as stated by the Deputy Secretary is "...One of the lessons we've learned is that HUD must have a rapid response disaster team of senior managers always at the ready." Specifically, the Assistant Deputy Secretary will be responsible for coordinating all HUD response to a presidential declared disaster. Though evolving, this office is not expected to directly manage a specific HUD response but, rather, to coordinate and communicate all response by HUD, whether by Office of Community Planning and Development, Office of Public

and Indian Housing, Housing, or another HUD office. The Office of Disaster Policy and Response currently has nine staff members. Regarding Hurricanes Katrina, Wilma, and Rita, the Assistant Deputy Secretary chairs quarterly meetings of senior executives of each Department program involved in disaster recovery.

OIG commends HUD for establishing the Office of Disaster Policy & Response. However, HUD should have established this office soon after the disasters to facilitate coordination among the various program offices and issued the monitoring contract sooner.

### **Quarterly Report to Congress**

The Emergency Supplemental Appropriation states that the Secretary shall establish procedures to prevent recipients from receiving any duplication of benefits and report quarterly to the Committees on Appropriations with regard to all steps taken to prevent fraud and abuse of funds made available under this heading including duplication of benefits. A Federal Register Notice, Vol. 71, No. 29, February 13, 2006, further outlines the steps to follow regarding the *Prevention of Fraud, Abuse, and Duplication of Benefits*.

To meet this directive, HUD is pursuing four courses of action. First, the Federal Register Notice includes specific reporting, written procedures, monitoring, and internal audit requirements for grantees. Second, to the extent its resources allow, HUD will institute risk analysis and on-site monitoring of grantee management of the grants and of the specific uses of funds. Third, HUD will be extremely cautious in considering any waiver related to basic financial management requirements. The standard Community Development Block Grant financial requirements will continue to apply. Fourth, HUD is collaborating with the HUD Office of Inspector General to plan and implement oversight of these funds.

According to HUD's "One Year Later" report, "HUD is using its Disaster Recovery Grant Report system to comply with quarterly Congressional reporting requirements and to aid in the detection and prevention of fraud, abuse, or mismanagement." However, the Department submitted a separate fraud draft report for the period of January 2007 to March 2007 on June 19, 2007. This will be the Departments' first quarterly report to be sent to the Committees on Appropriations. **(Appendix D)**

### **Analysis of HUD's Performance**

In the OIG's opinion, HUD took appropriate action to assist in the aftermath of the Gulf disaster: HUD took action in their organization prior to the storm hitting land, enacted their continuity of operations plan, and established task forces to address immediate concerns. HUD put in place a number of innovative and timely measures to assist the areas affected including putting a moratorium on foreclosures, redirecting already programmed funds, and partnering with FEMA to assist the evacuees and infrastructure.

HUD took immediate and continuing action in helping HUD's assisted housing families and the homeless. HUD worked closely with the states, approving their action plans in accordance with congressional requirements, and generally made funds available in a timely manner.

HUD/OIG identified areas in which HUD could have improved Gulf Coast assistance that would help in future disaster situations. HUD did provide formal oversight and coordination with its task forces immediately after the hurricane, but until the Office of Disaster Policy & Response was initiated, HUD did not have any specific office overseeing the various program delivery systems. We also identified a lack of communication between headquarters and the field office staffs in the Gulf Coast. Last, the Emergency Supplemental Appropriation language issued on December 30, 2005 states that HUD will prepare a quarterly report for Congress on its fraud related efforts in the Gulf Coast. The first quarterly report was submitted on June 19, 2007.

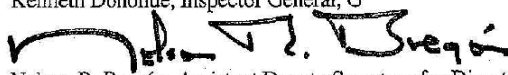
Management Comments



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-7000

OFFICE OF COMMUNITY PLANNING  
AND DEVELOPMENT

NOV 09 2007

MEMORANDUM FOR: Kenneth Donohue, Inspector General, G  
  
FROM: Nelson R. Bregón, Assistant Deputy Secretary for Disaster Policy  
and Response, SD  
SUBJECT: Draft Report on the Review of HUD's Performance in the Gulf Coast

Thank you for the opportunity to review the subject draft report. It appears to be a fair and comprehensive synopsis of the Department's response to the 2005 hurricanes. However, we do have a comment. The draft report makes two judgmental statements without adequate explanation:

Page 6: "Even within the successes of the Hurricane Recovery and Response Center and HUD Assistance and Recovery Team as indicated above, there was a lack of communication and coordination with field office personnel. Because hurricane related management decisions were coming from headquarters in Washington, DC, the field office management could not coordinate in their normal manner, with state and local officials."

Page 10: "However, the local HUD Office of Community Planning and Development offices, which are most familiar with the local responsible state officials, were not part of the action plan process."

While the statements are, for the most part, factually correct, the negative way in which they are stated ignores valid reasons within management's purview for taking those approaches. Those reasons include management's decision regarding the capacity of certain field offices to handle some of the largest grants in history and the intensive work related to those grants.

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List of FEMA Mission Assignments

HUD Code	FEMA Assignment No.	FEMA Obligation Amount	Assistance Requested
FOA	1603DR-LA-DHUD-01	\$ 750,000	Housing Strike Teams deployed in response to Hurricane Katrina in the State of Louisiana.
Not Activated	3216EM-TX-DHUD-01	\$ 100,000	In response to Katrina & Rita provide 6 HUD staff in support of housing needs for LA evacuees in the State of TX.
FYA	RITA - JFO 1606DR-TX-DHUD-01	\$ 45,000	HUD representative to, but not limited to, the FEMA Joint Field Office (JFO) in Austin, TX.
FOP	RITA - DRC 1606DR-TX-DHUD-02	\$ 75,000	To deploy a minimum of 1 staff member to each Disaster Recovery Center located in TX
FOB	ESF-14 1603DR-LA-DHUD-03	\$ 1,445,000	To provide technical assistance for hurricane recovery & rebuilding efforts in the State of LA.
KDHAP	1603DR-LA-DHUD-04	\$ 78,994,020	To provide up to 3-mo transitional housing program for displaced Public assistance residences
FYF	1604DR-MS-DHUD-01	\$ 25,000	Activate HUD to perform registration functions at Chicago Call Center in support of DR-1604-MS Katrina. Covers OT and travel.
FOF	1604DR-MS-DHUD-02	\$ 125,000	FEMA requires HUD subject matter experts (not to exceed 6 staff members) be assigned across Mississippi.



**List of Community Planning and Development Notices  
Highlighting Waivers and Alternative Requirements**

Notice	Date	State
71 FR 7666, FR-5051-N-01	02/13/2006	Common Allocation/Application for \$11.5 billion
71 FR 34448, FR-5051-N-02	06/14/2006	State of Alabama
71 FR 34451, FR-5051-N-04	06/14/2006	State of Louisiana
71 FR 34457, FR-5051-N-03	06/14/2006	State of Mississippi
71 FR 43622, FR-5051-N-05	08/01/2006	State of Texas
71 FR 51678, FR-5051-N-06	08/30/2006	State of Florida
71 FR 62372, FR 5051-N-07	10/24/2006	State of Mississippi
71 FR 63337, FR-5089-N-01	10/30/2006	Common Allocation/Application, and Applicability of Prior Waivers for \$5.2 billion
72 FR 10014, FR-5089-N-03	03/06/2007	State of Louisiana
72 FR 10020, FR-5089-N-04	03/06/2007	State of Mississippi
72 FR 48804, FR-5089-N-05	08/24/2007	Common waiver of Section 414 of the Stafford Act and alternative requirements
72 FR 48808, FR-5051-N-08	08/24/2007	State of Mississippi

**Noted** - The citations above include the page number the Notice starts on. Use this page number when you want to refer to the whole Notice.

April - June 2007

US Department of Housing and  
Urban Development  
451 7<sup>th</sup> Street, SW  
Washington, DC 20410

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**Quarterly Report  
to Congress**

**Prevention of Waste,  
Fraud, and Mismanagement  
of CDBG Funds for  
Recovery from Hurricanes  
Katrina, Rita, and Wilma**

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Grantees: States of Alabama, Florida,  
Louisiana, Mississippi, and Texas

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