Delivering Government Solutions in the 21st Century

Reform Plan and Reorganization Recommendations

Move Select USDA Housing Programs to HUD

Departments of Agriculture and Housing and Urban Development

Summary of Proposal: This proposal would move the Department of Agriculture's (USDA) rural housing loan guarantee and rental assistance programs to the Department of Housing and Urban Development (HUD). Having both USDA and HUD housing programs administered by HUD would allow both agencies to focus on their core missions and, over time, further align the Federal Government's role in housing policy.

THE CHALLENGE

Currently, USDA and HUD operate similar programs that assist homeowners and low-income renters and support rental housing development. Each agency operates its own mortgage insurance programs for home purchase and refinance loans, as well as loans to build, rehabilitate, and refinance rental housing properties. In addition, the two agencies operate separate rental assistance programs offering subsidies to make rents affordable to low-income tenants.[1] The programs, however, are not identical; there are differences in eligibility requirements, assistance levels, delivery and oversight structures, and other program features that have evolved separately over time. Given that these housing programs are currently situated in separate agencies with distinct missions and priorities, incorporating best practices across programs and establishing a unified housing policy has been a challenge. This proposal seeks to mitigate these issues by moving USDA's single-family and multifamily loan guarantees and rental assistance programs to HUD.

THE OPPORTUNITY

Moving USDA housing programs to HUD would foster a more integrated approach to homeownership and rental housing programs by consolidating oversight and policy direction under one agency. In the long term, it would improve operational efficiency and service delivery through integration of like programs and the adoption of best practices.

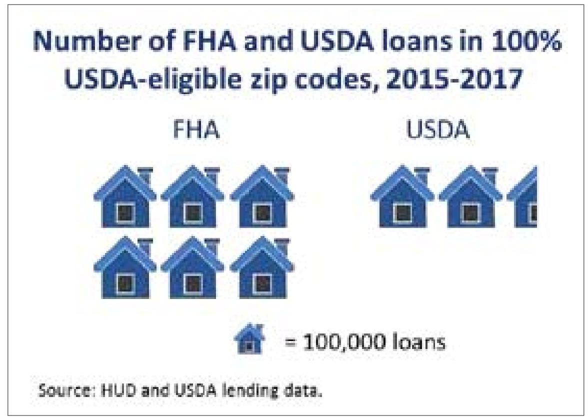
WHAT WE'RE PROPOSING AND WHY IT'S THE RIGHT THING TO DO

USDA's housing programs, which serve eligible rural areas, were initially established in the 1940s in response to an underrepresentation of national housing programs in rural areas. They were also a result of the ready-made delivery system USDA had in place through its field office structure for farm loans. Since then, the rationale for separate, rural-focused housing programs at USDA has become outdated given HUD's role in serving communities throughout the Nation, including in many rural areas. In fact, due in large part to the sheer size of its programs, HUD serves more households in USDA-eligible areas than USDA does. For example, as shown in the Figure, HUD's Federal Housing Administration (FHA)

[1] In general, HUD and USDA rental assistance programs make rents affordable to eligible households by paying the difference between the unit's rent and 30 percent of a household's adjusted income. These programs include: 1) tenant-based rental assistance/vouchers for eligible tenants to rent privately owned apartments or single-family homes, which can be applied to different properties if tenants move; and 2) project-based rental assistance that is attached to specific properties and is available to tenants only when they are living in units at these properties.

guaranteed approximately 633,000 single-family loans in zip codes that were 100 percent USDA-eligible from fiscal years 2015 to 2017 compared to 258,000 loans guaranteed by USDA.

Moving USDA housing programs to HUD would be the first step toward achieving long-term improvements in operational efficiency and service delivery. For example, program requirements, management and oversight processes, and systems would be assessed to identify and take advantage of best practices from each agency. Private-sector partners, including lenders and developers, that currently work with both agencies to administer housing programs could realize efficiencies as conflicting requirements are eliminated or reduced. Another long-term objective, to the extent it can be achieved without compromising Agency mission, would be to produce Federal savings by reducing Agency overhead costs.



This reorganization could be modeled after the provision in a draft House bill, the "FHA-Rural Regulatory Improvement Act of 2011," which proposed to establish a separate HUD Rural Housing office to provide loan guarantees and rental assistance in rural areas, and transfer the USDA housing programs into that office. This proposal is also consistent with findings from the Government Accountability Office (GAO). Since 2012, GAO has issued annual reports on opportunities to reduce fragmentation, overlap and duplication, and housing programs at USDA and HUD have routinely been included in that report.

Reform Federal Role in Mortgage Finance[1]

Summary of Proposal: This proposal would transform the way the Federal Government delivers support for the U.S. housing finance system to ensure more transparency and accountability to taxpayers, and to minimize the risk of taxpayer-funded bailouts, while maintaining responsible and sustainable support for homeowners. Proposed changes, which would require broader policy and legislative reforms beyond restructuring Federal agencies and programs, include ending the conservatorship of Fannie Mae and Freddie Mac, reducing their role in the housing market, and providing an explicit, limited Federal backstop that is on-budget and apart from the Federal support for low- and moderate-income homebuyers.

THE CHALLENGE

The U.S. housing market is supported by a complex system of Federal subsidies and programs intended to make mortgage financing accessible to a wide range of homebuyers. However, this system is challenged by the operation of two privately-owned Government sponsored-enterprises (GSEs), Fannie Mae and Freddie Mac, in conservatorship, a condition that has been maintained since 2008, in addition to overlapping and sometimes conflicting Federal goals. The Federal role in support of housing finance is not effectively targeted to households in need of assistance or sufficiently accountable to taxpayers, as the costs and benefits of that support are unclear.

In response, this proposal would end the conservatorship of Fannie Mae and Freddie Mac and propose better tailoring of delivery of Federal programs. Policy makers should also pursue an approach that would level the playing field with the private sector to decrease the Federal subsidies supporting housing.

THE OPPORTUNITY

This proposal would reorganize the way the Federal Government delivers mortgage assistance and go beyond restructuring Federal agencies and programs by transitioning Fannie Mae and Freddie Mac to fully private entities. Competition to the duopolistic role played by the two privately-owned GSEs would be an essential element of reform to decrease moral hazard and risk to the taxpayer. Both Fannie Mae and Freddie Mac, as well as other competitive entrants, would have access to an explicit Federal guarantee for mortgage-backed securities (MBS) that they issue that is only exposed in limited, exigent circumstances. Such a guarantee would be on-budget and fully paid-for. This would also ensure that the Government's role is more transparent and accountable to taxpayers, minimize the risk of taxpayer-funded bailouts, and ensure that mortgage credit continues to be available in times of market stress for creditworthy borrowers.

[1] In order to propose changes in the Federal Government's role in housing finance, this proposal outlines policies related to the privately-owned GSEs and ending their conservatorship. Nothing in this paper should be construed as implying that the GSEs are agencies or instrumentalities of the Government nor that FHFA as conservator is operating as an agency of the United States.

WHAT WE'RE PROPOSING AND WHY IT'S THE RIGHT THING TO DO

Under the current system, Fannie Mae and Freddie Mac, two privately-owned GSEs, buy and guarantee mortgages from lenders and sell them to investors as MBS. Although they are private companies, they are congressionally chartered, a unique status that has been viewed as conveying an implicit Federal backstop that has in turn lowered their cost of capital relative to similarly-sized institutions. In 2008, Fannie Mae and Freddie Mac were taken into conservatorship and received (and continue to receive) an explicit but limited backing from the Treasury under a Preferred Stock Purchase Agreement (PSPA), which gives access to capital funding that covers any loss the enterprises may incur. In their Federal charters and by action of their primary regulator, the Federal Housing Finance Agency (FHFA), Fannie Mae and Freddie Mac have goals of providing a certain amount of financing to low- and moderate-income borrowers. However, these affordable housing activities are not clearly accounted for on the Federal balance sheet.

In addition to the GSEs, other Federal programs provide mortgage support, contributing to a large Federal footprint in the housing market. The Department of Housing and Urban Development (HUD) Federal Housing Administration (FHA) provides mortgage insurance intended to aid borrowers traditionally underserved by the conventional mortgage market, including lower-wealth households, minorities, and first-time homebuyers. The Departments of Veterans Affairs (VA) and Agriculture (USDA) also administer mortgage insurance programs targeted to veterans and lower-income rural households, respectively. The loans guaranteed by FHA, VA, and USDA are in turn packaged into MBS that are guaranteed by Ginnie Mae, a Federal entity operated by HUD. Together, loans backed by the GSEs and Ginnie Mae comprised about 70 percent of mortgages originated in 2017.

All these entities, taken as a whole, form a complex and overlapping network of cross-subsidization, without clear accountability as to who is paying for, and who is receiving, housing subsidies. Although the Federal role in the housing market has helped to facilitate the availability of the 30-year fixed-rate mortgage, the current system has structural flaws that have also created distortions in home pricing that may actually hinder the goal of homeownership. This reorganization proposal, which includes broad policy and legislative reforms beyond restructuring Federal agencies and programs, would:

- Increase competition. The proposal would remove the Federal charter from statute and fully privatize the GSEs. A Federal entity with secondary mortgage market experience would be charged with regulatory oversight of the fully privatized GSEs, have the authority to approve guarantors, and develop a regulatory environment that is conducive to developing competition amongst new private guarantors and the incumbent GSEs, ensuring they would all be adequately capitalized and competing on a level playing field. If the GSEs lost some of the benefits that have led them to dominate the market, this would enable other private companies to begin competing in this space. The regulator would also ensure fair access to the secondary market for all market participants, including community financial institutions and small lenders.

- Increase transparency and accountability. Under this proposal, which would also involve entities outside the Executive Branch of the Federal Government, guarantors would have access to an explicit guarantee on the MBS that they issue that is only exposed in limited, exigent circumstances. Taxpayers would be protected by virtue of the capital requirements imposed on the guarantors, maintenance of responsible loan underwriting standards, and other protections deemed appropriate by their primary regulator. The regulator would set fees to create an insurance fund designed to take effect only after substantial losses are incurred by the private market, including the guarantors, in order to ensure the continued availability of mortgage financing through shifting economic cycles. The projected cost of this guarantee and other fees charged would be on-budget and accountable, resulting in reduced implicit taxpayer exposure.

- Align incentives and reduce overlap. Under this reform proposal, which would also require legislative and policy changes affecting the mandates of entities that are not part of the United States Government, the GSEs would focus on secondary market liquidity for mortgage loans to qualified borrowers, while HUD would assume primary responsibility for affordable housing objectives by providing support to low- and moderate-income families that cannot be fulfilled through traditional underwriting and other housing assistance grants and subsidies. To effectuate this, the newly fully-privatized GSEs would have mandates focused on defining the appropriate lending markets served in order to level the playing field with the private sector and avoid unnecessary cross-subsidization. A separate fee on the outstanding volume of the MBS issued by guarantors would be used specifically for affordable housing purposes, and would be transferred through congressional appropriations to, and administered by, HUD.

- Provide more targeted assistance to those in need. The proposal would be designed so that the affordable housing fees transferred to HUD would enable FHA to provide more targeted subsidies to low- and moderate-income homebuyers while maintaining responsible and sustainable support for homeownership and wealth-building. Some of the fees could potentially be used to support affordable multifamily housing or other HUD activities. All of this support would be on-budget and accountable.

Create the Bureau of Economic Growth

Department of Commerce

Summary of Proposal: This proposal rethinks how the Federal Government can drive economic growth in concert with private sector investments in communities across the country. By coordinating and consolidating Federal economic assistance resources at the Department of Commerce (DOC), taxpayer dollars will receive a higher return on investment on projects that are transparent and accountable.

THE CHALLENGE

Federal economic assistance programs that serve States, localities, and Tribes are broadly dispersed among Federal agencies with different purposes, eligibility criteria, time horizons, and reporting requirements. As a result, communities must navigate a complicated web of rules and regulations to determine which programs they might be eligible for, comply with different application requirements on a variety of timelines, and report on performance measures that differ in definition and reporting periods.

Consolidating these programs within DOC provides an opportunity to streamline and consolidate standards and processes for eligibility and participation, including planning and reporting requirements.

THE OPPORTUNITY

This proposal establishes a Bureau of Economic Growth in DOC, consolidating existing economic development programs to provide a central place for grants and technical assistance to communities and entrepreneurs focused on job creation, business growth, and strengthening local economies. The new Bureau will better support and empower State, local, and tribal governments to spur their economies through locally planned development projects. The streamlined Bureau will also increase transparency in regional and local Federal spending, as well as encourage and facilitate complementary private-sector spending.

Some of the programs that will be consolidated include the Department of Housing and Urban Development's Community Development Block Grant program, the Economic Development Administration's Economic Development Assistance Programs, and rural business and community facility grants from the Department of Agriculture. As part of the Bureau's focus on creating job opportunities and supporting the local business community, it would absorb the economic development functions of the Delta Regional Authority, Denali Commission, and Northern Border Regional Commission. The new Bureau would also oversee technical assistance programs. These programs provide training, planning, and other business development assistance to help businesses succeed no matter where they are in their lifecycle, whether they are just starting out, looking to expand, or trying to access new domestic and international markets.

WHAT WE'RE PROPOSING AND WHY IT'S THE RIGHT THING TO DO

The Federal Government can play an important role in bolstering economic growth, with its ability to undertake large-scale economic development projects and holistically analyze their impacts. It is uniquely positioned to help mitigate market failures, and can leverage resources in distressed communities when local/regional entities cannot. Unfortunately, the current Federal economic development model is fragmented, resulting in fractured regulatory requirements and jurisdictions, overlapping programs, redundancy, and waste.[1] Many programs and projects are unable to clearly demonstrate their impacts on measures of economic growth.

The Bureau of Economic Growth reorganizes several Federal economic development programs into discrete functions based on mission, capabilities, and delivery method – with the intent of increasing efficiency and accountability, and improving outcomes and services to citizens, business owners, and communities. Consolidating this assistance within DOC provides an ideal opportunity to streamline and consolidate standards and processes for eligibility and participation, including planning and reporting requirements.

The new Bureau will accomplish its mission via three operational arms – planning, grant-making, and technical assistance – as well as an office of Bureau-wide administration. The Planning Office will engage State, local, and tribal community development agencies/authorities, in addition to regional consortia of these entities. Its primary function will be to leverage these agencies' internal planning capabilities to identify each community's unique barriers to economic growth and set community goals that are specific, measurable, actionable, relevant, and time-bound. Through this planning process, these State, local, tribal, and regional agencies can establish the criteria and milestones by which to measure the effectiveness of any subsequently awarded grants.

After completing the planning process, applicants can apply to the Bureau's Office of Grant-Making for the funds to implement their plans in a manner consistent with their established goals. The Office of Grant-Making will craft criteria to assure that the implementation activities are sufficiently comprehensive, actionable, and consistent with the applicant's plan.

The Office of Technical Assistance will work directly with non-profit and educational organizations operating within the State, local, tribal, or regional areas to build capacity through strategic and operational training and dissemination of best practices in economic development to local businesses and practitioners. These non-profits will apply directly to the Office of Technical Assistance for funding for technical assistance activities that support the community economic development plan. In addition to providing funding, the Office of Technical Assistance could provide access to assets that support the non-profit's implementation. This direct engagement with non-profits will allow the Office of Technical Assistance to function in an efficient and scalable manner, without duplicating staff or other resources that already exist in the local community. Recognizing the unique challenges faced by small businesses, this proposal does not include the Small Business Administration's Office of Entrepreneurial Development, which provides planning and educational services exclusively to small businesses, within the new bureau.

[1] Government Accountability Office, "Action Tracker: Economic Development: Economic Development Programs," https://www.gao.gov/duplication/action_tracker/Economic_Development_Programs/action1#t=3.

Centralizing these economic development programs and activities under DOC is advantageous for several reasons. DOC is already tasked with the missions of "promoting job creation and economic growth" and "leading the Federal economic development agenda by promoting innovation and competitiveness, and preparing American regions for growth and success in the worldwide economy." As such, Commerce is well equipped with resources and expertise to support the proposed economic development consolidation and advance economic growth.

Through its Bureaus of Economic Analysis and the Census, DOC has access to comprehensive economic data which can be used to inform economic development strategies, measure outcomes, and improve accountability. Additionally, DOC has wide-ranging capabilities within its offices and Bureaus which make it uniquely suited to address the intrinsically multi-faceted nature of economic development. For example, it can leverage technical expertise to assist businesses with existing international footprints, or those looking to export through trade functions like export assistance and attracting foreign direct investment; facilitate technological innovation and commercialization; and help businesses register and protect their intellectual property.

Coordinated Operations, Planning & Intelligence

This proposal will evaluate how DHS headquarters and components will produce information and intelligence that is comprehensive, current, coordinated, operationally-focused and analytically-defensible, and increase the effectiveness of coordinated operational plans and policies. DHS's Office of Intelligence and Analysis, the Office of Strategy, Policy and Plans, and Office of Operations Coordination will explore areas such as analysis overlap, duplication and/or fragmentation; joint and integrated strategies and operations; common operating picture (COP) and alert warning; and operations centers overlap, duplication and/or fragmentation.

National Bio and Agro-Defense Facility (NBAF) Transfer from DHS to USDA

This FY 2019 Budget proposal would transfer operational responsibility for the National Bio and Agro-Defense Facility (NBAF) from DHS's Science and Technology Directorate (S&T) to USDA's Agricultural Research Service (ARS) in FY 2019. DHS would finish the construction and commissioning of the laboratory facility, while USDA would operate the facility in the future.

Organizing Headquarters Functions

This proposal would identify how DHS Headquarters can more effectively align Business Support and Mission Support functions to support Homeland Security mission delivery by enabling: (1) strategic governance, oversight, policymaking, and internal and external coordination; and (2) strengthening service and delivery of the business support and mission support functions to the Department. In tandem, the DHS Management Directorate is advancing agency-wide initiatives such as field efficiencies, modernizing financial systems and processes, and SOC consolidation.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Reform Rental Assistance

HUD is seeking legislative reforms to decades-old rent policies that are confusing and costly, and often fail to support HUD-assisted individuals in increasing their earnings. HUD's Making Affordable Housing Work Act would offer public housing authorities (PHAs), property owners, and HUD-assisted families a simpler and more transparent set of rent structures to reduce administrative burden, incentivize work, and place HUD's rental assistance programs on a more fiscally-sustainable path.

Consolidate Headquarters Offices

HUD spends approximately $11.8 million per year on four leases within walking distance of its main headquarters at the Robert C. Weaver Federal building. HUD is in the process of consolidating these satellite offices into the Weaver building, reducing its real property footprint and annual leasing costs.

DEPARTMENT OF STATE

Modernizing IT, HR Operations, and Data Analytics

The State Department seeks to advance information technology (IT) modernization, including: allowing real-time collaboration; strengthening workforce readiness and performance management; and improving enterprise-wide data availability. This will involve enhancing data analytics to better inform decisions and investing in and implementing cloud technologies to allow employees to work more easily from any location, improve cyber security, streamline work processes, and consolidate duplicative systems. Cloud implementation has been underway since the end of 2017. By the end of March 2018, the Department had already migrated 16.6 percent of user mailboxes to cloud-based e-mail. This effort will also seek to improve connectivity between the State and United States Agency for International Development (USAID) IT platforms, thus ensuring increased collaboration and information access to improve effectiveness and efficiency.

Leadership Development and Training

The State Department seeks to enhance leadership training and development opportunities. To this end, the Foreign Service Institute is working to modernize and expand formal leadership training for all levels of the workforce and is implementing a program of mid-level leadership projects. The Leadership Advisory Board is reviewing the Department's Leadership and Management Principles and promoting leadership development activities more broadly.

Special Envoys

The State Department is integrating selected envoys and special representative offices into the regional and functional bureaus, and eliminating those envoys and representatives that have accomplished their original purpose, or have overlapping roles and responsibilities. This effort will empower regional and functional bureaus' policy direction, provide clarity in reporting authority, and strengthen communication channels. In consultation with the Congress, 17 such offices are being realigned as of May 2018.

Enhance Global Presence and Policy Processes

The State Department seeks to improve oversight of the U.S. Government's global presence under Chief of Mission authority, including enhanced interagency coordination to foster increased collaboration and oversight. The goal is to ensure the most efficient allocation of personnel consistent with U.S. interests around the world. State and USAID will work together to advance targeted reforms in this area, where changes are mutually reinforcing and can be effectively synchronized to maximize benefits as appropriate.

Enhance Operational Efficiencies

The State Department is examining ways to enhance human resources service delivery in order to simplify processes and reduce wasted time. Enhancements will also strengthen real property management both domestically and overseas, and achieve efficiencies in our acquisitions process to improve service delivery. State and USAID will work together to advance targeted reforms in this area, where changes are mutually reinforcing and can be effectively synchronized to maximize benefits as appropriate.