

Top Challenges Facing the  
U.S. Department of Housing and Urban Development:

# COVID-19 Emergency Relief and Response Efforts

The U.S. Department of Housing and Urban Development (HUD) has been provided more than \$12 billion to perform its responsibilities under the CARES Act in the following areas: (1) rental assistance, (2) mortgage loan forbearance, (3) assistance for vulnerable populations, (4) assistance for communities' response, and (5) continued performance of HUD's mission. The HUD OIG addresses the Department's top management challenges surrounding CARES Act implementation in this context, based on prior OIG work and ongoing conversations with HUD.

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## Rental Assistance

Congress provided HUD more than \$2.6 billion in supplemental rental subsidies for tenants who have lost income and to ensure that landlords who provide subsidized housing and face significant increases in costs due to the COVID-19 pandemic are not forced out of the affordable housing market. The CARES Act also protects tenants of covered properties from eviction for 120 days.

HUD will be challenged to ensure that these grantees provide additional rental subsidies to tenants properly and in a timely manner and accurately track and report on the expenditure of these funds. It is unclear whether HUD has the ability to determine whether eligible renters are aware of and their landlords are complying with the moratorium. There has also been notable media coverage of tenants being sexually harassed and assaulted by their landlords when they are unable to meet rent obligations. These are fair housing violations, and HUD will be challenged to alert tenants as to their rights and provide avenues for a remedy.

The pandemic also presents a challenge to the HUD-assisted rental stock. The current shelter-in-place orders prevent all but emergency maintenance on the affordable housing portfolio. In addition, HUD allowed public housing agencies to waive or postpone certain program safeguards, such as on-site inspections. It is unclear what the impact of deferred inspection and maintenance will be on an already aging portfolio.

## Mortgage Loan Forbearance

Congress provided borrowers with single-family mortgages insured by HUD's Federal Housing Administration (FHA) up to 180 days forbearance, with the right to request an additional 180 days. In addition, Congress provided up to 90 days forbearance to apartment building owners with FHA-insured mortgages. Because the vast majority of FHA-insured loans are securitized into mortgage-backed securities (MBS), nonpayment on FHA mortgages due to forbearance impacts payments to MBS investors, which could have a negative impact on the residential securities market. HUD's Government National Mortgage Association (Ginnie Mae) guarantees payment on MBS backed by FHA mortgages. HUD, through FHA and Ginnie Mae, is tasked with ensuring that borrowers are provided needed forbearance while also protecting the financial system destabilized by borrower nonpayment.

HUD faces challenges on several fronts. Initially, HUD must ensure that borrowers protected by forbearance are aware of their rights. Ginnie Mae must

act to preserve the stability in the residential securities market by closely monitoring and addressing the risk that continued forbearance creates for its counterparties. While Ginnie Mae has established a temporary assistance program for the MBS it insures for issuers who are unable to make full payments to investors, Ginnie Mae acknowledges that this assistance does not include taxes and insurance payments, which lenders and issuers must advance on behalf of the nonpaying borrowers. The assistance also does not include servicer fees, which would have been included in the borrowers' payment. Further, Ginnie Mae has limited insight into the actions of other market actors, such as government-sponsored enterprises, and credit lines used by its issuers. Prolonged forbearance may create a risk of default of one or more of the Ginnie Mae issuers due to an inability to pay amounts due on their MBS.

As forbearances end, FHA will be required to track and monitor lender and borrower agreements to repay the forborne amounts. In many cases, servicers will be able to file a partial claim with HUD, allowing the servicer to recoup lost funds from HUD's insurance funds. HUD will need to track and monitor transactions for millions of loans. Partial claims due to forbearance will likely have a significant impact on FHA's mortgage insurance fund. Failure of borrowers to pay insurance premiums as part of their monthly payment will also strain the mortgage insurance fund.

## Assistance for Vulnerable Populations

Congress has provided more than \$4.1 billion for populations facing greater health risks from the pandemic, including individuals experiencing homelessness, people with HIV/AIDS, and older adults. The vast majority of these funds are for Emergency Solutions Grants—an increase of more than 1,300 percent over HUD's fiscal year 2020 appropriation for this program. This deluge of funding may significantly strain HUD systems and staff, as well as the state and local entities tasked with implementing this program. HUD will be dependent on the grantees and subgrantees reporting their use of funds to meet CARES Act reporting requirements.

Although not referenced in the CARES Act, HUD provides mortgage insurance for residential care facilities under Section 232 of the National Housing Act.<sup>1</sup> In its 2020 top management challenges report, the OIG specifically noted HUD's failure to monitor residential care facilities and take action regarding financially challenged nursing homes.<sup>2</sup> The concentration of COVID-19 in nursing homes and senior living facilities and the financial impact on operators of these facilities may place even more mortgages at risk of default.

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<sup>1</sup>*National Housing Act (1934), as amended.*

<sup>2</sup>*HUD OIG, Top Management Challenges Facing the U.S. Department of Housing and Urban Development in 2020 and Beyond (December 4, 2019).*

## Assistance for Communities' Response

Congress provided more than \$5 billion to support local communities in responding to the pandemic through the Community Development Block Grants (CDBG) program. Communities' pandemic response needs are new and extremely time sensitive, requiring HUD to develop new standards and issue CDBG funds with extraordinary speed. Further, the CARES Act more than doubles HUD's CDBG appropriation for fiscal year 2020 and adds different criteria for these funds. In audits dating back several years, the OIG found that HUD was already challenged with monitoring this program and assessing risk.

HUD's efforts regarding other presidentially declared disaster relief efforts are ongoing. States are the initial grantees for disaster funding and must develop and oversee a network of local disaster relief entities. Many states are already severely taxed by pandemic efforts. As the United States enters hurricane season on June 1, 2020, HUD and its grantees may be challenged to respond in a timely manner to new disasters in addition to ongoing pandemic response activities.

## HUD's Mission Performance

As of April 21, 2020, HUD reported publicly that 95 percent of its staff is working remotely to continue HUD's mission and implement new CARES Act responsibilities. HUD will need to ensure that it can continue to perform essential mission functions in light of these additional program obligations and operational limitations. HUD already experiences significant challenges in the areas of human capital and procurement, financial management, information systems technology, and monitoring and oversight, as outlined in the 2020 top management challenges report. All of the new work required by HUD under the CARES Act will amplify these challenges.

*This report was compiled at the request of the **Pandemic Response Accountability Committee (PRAC)**. A total of 37 Inspectors General contributed to the PRAC's report. To read the full report visit: [https://www.oversight.gov/sites/default/files/oig-reports/Top%20Challenges%20Facing%20Federal%20Agencies%20-%20COVID-19%20Emergency%20Relief%20and%20Response%20Efforts\\_1.pdf](https://www.oversight.gov/sites/default/files/oig-reports/Top%20Challenges%20Facing%20Federal%20Agencies%20-%20COVID-19%20Emergency%20Relief%20and%20Response%20Efforts_1.pdf)*