

Additional Views on Recommendations of the Committee on Financial Services for Reconciliation for Fiscal Year 2006: FHA Asset Disposition

As part of this year's Budget Reconciliation process, the Fiscal Year (FY) 2006 Budget Resolution directed the Financial Services Committee to make \$470 million in cuts to mandatory programs within the Committee's jurisdiction. There are few mandatory programs within the Committee's jurisdiction other than those administered by the Federal Housing Administration (FHA). Consequently, the Committee had few options to choose from to achieve the arbitrary cuts required by the FY 2006 Budget Resolution.

Unfortunately, the Committee has decided to recommend adoption of several misguided legislative provisions included in the President's Fiscal Year (FY) 2006 Budget that undermine efforts to preserve the Nation's diminishing supply of affordable housing. The President's budget proposed to convert the FHA's Up Front Grant, Discount Property Sales and Discount Loan Sales programs from mandatory programs to discretionary programs but failed to propose any funding for these programs. Presently, these mandatory programs are funded by the Mutual Mortgage Insurance Fund (MMIF), which is not supported by annual appropriations but by annual insurance premiums. By making these programs discretionary, the proposal would subject these programs to uncertain annual appropriations and force them to compete with other important housing programs for very limited resources. Assertions by the Administration and others that this proposal will bring greater oversight of the program are misleading. While in theory these programs could still receive discretionary funding through the annual appropriations process, the fact that the President's budget requested no funds for these programs signals to Congress that these programs are not a priority. If Congress follows the President's recommendation by providing no funds for these programs, their very existence will be in jeopardy.

The President's proposal could delay much-needed rehabilitation of HUD-owned properties. In addition, it may increase the government's cost to preserve these properties because HUD will be responsible for paying security and maintenance on the properties and will likely hold them in its portfolio longer. Ironically, the proposal to make the program discretionary contradicts the program's original purpose -- to take the redevelopment expense "off budget" while utilizing the private sector's ability to rehabilitate HUD-owned properties more promptly and efficiently than HUD.

The recent devastation wrought by Hurricanes Katrina, Rita and Wilma have reminded us of how important it is for everyone to have a safe and affordable place to live and how important it is for the Federal government to support and promote efforts to preserve and expand the Nation's supply of safe and affordable housing. One way in which the Federal government promotes affordable housing is through the Up Front Grant Program. The FHA's Up Front Grant program provides grants for rehabilitation, demolition, rebuilding and other costs related to the disposition of multifamily housing projects that are owned by HUD. The Up Front Grant program has been a valuable tool in efforts to preserve and rehabilitate properties intended to serve the very poor where HUD has taken title as a result of default or foreclosure on the FHA loan. The program has strengthened the ability of the affordable housing community to revitalize these properties. Under current HUD regulations, HUD has the discretion to provide

up front grants to public entities or other purchasers equal to the lesser of 50% of the total development costs or \$40,000 per unit. More than 1,000 buildings serving 120,700 families have been sold through HUD foreclosure sales over the past ten years. Buildings across the country, including those in Ohio, Texas, Louisiana, Baltimore, Chicago, New York City, and Washington, D.C. have been substantially revitalized as a result of below market acquisition costs and up front rehabilitation grants. Without these programs, it will become even more difficult for non-profit organizations, faith-based organizations and others to rehabilitate these units and preserve them as affordable.

In addition, the President's proposal removes a valuable tool that could be used to assist families displaced by Hurricane Katrina, Rita and Wilma. In fact, the President's proposal would appear to directly undermine the Urban Homesteading Initiative, which he announced at a press conference in Jackson Square on September 15, 2005. Under the proposed Initiative, HUD would identify properties in the region owned by the Federal government and provide building sites to low-income citizens through a lottery. Ironically, whereas the Urban Homesteading Initiative would dispose of federally-owned properties in their current "as is" condition without providing any assistance to the potential homeowner to make them habitable, the Up Front Grant, Discount Sales and Discount Loans Sales programs would make the same properties both safe and affordable for those whom the President is trying to assist through the Initiative.

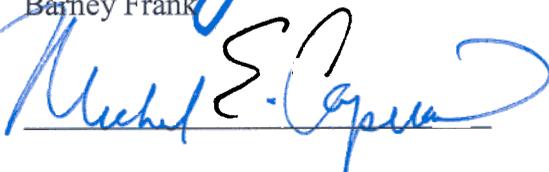
Sadly, those most affected by the Committee's decision to adopt the President's recommendations are residents living in HUD-owned properties under substandard conditions and responsible non-profit developers seeking to preserve these properties. The likely result of the Committee's decision is that HUD-owned properties will remain in substandard condition or be purchased by developers who have no intention of keeping the units affordable for the existing low-income residents.

While we were disappointed with the Committee's acceptance of the President's proposal, we are pleased that the Committee accepted an amendment offered by U.S. Representative Luis V. Gutierrez. The Gutierrez amendment helps to limit the damage of the reconciliation legislation by restoring these programs to mandatory funding status in FY2011, ensuring that we capture the savings for the prescribed five years in order to get us through this short term budget crunch, while still allowing the possibility for these programs to have a real future.

In conclusion, we urge the Budget Committee to reject the recommendation of this Committee to make the Up Front Grant Program, Discount Property Sales Program and Discount Loan Sales Program a discretionary program subject to annual appropriations



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