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

Written Testimony of Shaun Donovan
Secretary of U.S. Department of Housing and Urban Development (HUD)

Hearing before the Financial Services Committee

U.S House of Representatives

on

HUD's Fiscal Year 2012 Budget Request

Tuesday, March 1, 2011

Chairman Bachus, Ranking Member Frank, and Members of the Committee, thank you for the opportunity to testify today regarding the fiscal year 2012 Budget for the Department of Housing and Urban Development, *Creating Strong, Sustainable, Inclusive Communities and Quality Affordable Homes*.

I appear before you to discuss this Budget in an economic environment that is significantly improved from when the President took office. An economy that was shrinking is growing again – and instead of rapid job loss, more than a million private sector jobs were created in the last year. But we know there's still more work to be done to ensure that America and its workers can compete and win in the 21st century. And we have to take responsibility for our deficit, by investing in what makes America stronger and cutting what doesn't, and in some cases making reductions in programs that have been successful.

HUD's Fiscal Year 2012 budget tackles these challenges head on: by helping responsible families at risk of losing their homes and by providing quality affordable rental housing; by transforming neighborhoods of poverty to ensure we are not leaving a whole generation of our children behind in our poorest communities; by rebuilding the national resource that is our federally-assisted public housing stock and ensuring that its tenants are part of the mobile, skilled workforce our new global economy requires, and by leveraging private sector investments in communities to create jobs and generate the economic growth we need to out-innovate, out-educate and out-build the rest of the world.

This budget also reflects the need to ensure that we are taking responsibility for our country's deficits. As a down payment toward reducing the deficit, the President has proposed a freeze on non-security discretionary spending for the next five years, cutting the deficit by $400 billion over 10 years and bringing this spending to the lowest share of the economy since President Eisenhower. Every department shares a responsibility to make tough cuts so there's room for investments to speed economic growth. HUD's fiscal year 2012 budget more than meets the President's goal – the Department's $47.8 billion in gross budget authority is offset by $6 billion in projected FHA and Ginnie Mae receipts credited to HUD's appropriations accounts, leaving net budget authority of $41.7 billion, or 2.8% below the fiscal year 2010 actual level of $42.9 billion. To maintain this commitment to fiscal discipline, we have protected existing residents and made the difficult choice to reduce funding for new units and projects, including cuts to the Community

Development Block Grant, HOME Investment Partnerships, and new construction components of the Supportive Housing Programs for the Elderly (Section 202) and Disabled (Section 811).

And because winning the future also means reforming government so it's leaner, more transparent, and ready for the 21st century, we are also reforming the administrative infrastructure that oversees those programs. The Budget includes key provisions from the Section 8 Voucher Reform Act (SEVRA) legislative proposal that will simplify and rationalize the rent setting provisions of our three largest rental assistance program. The budget requests for Housing Choice Vouchers, Project-Based Rental Assistance, and Public Housing reflects a savings of about $150 million in the first full year and would yield over $1 billion in savings over the next half decade. Additionally, the Transformation Initiative—important funding and programmatic flexibility Congress provided in 2010—will enable the Department to offer cutting edge technical assistance that improves the management and accountability of local partners, and conduct the kinds of research and demonstrations that ensure that we are funding what works and identifying what doesn't and what we need to do better.

Responding to the Crisis

Much has happened in the two years since HUD submitted its fiscal year 2010 budget. Only weeks before, the Bush Administration and Congress had taken dramatic steps to prevent the financial meltdown, the nation was losing 753,000 jobs a month, our economy had shed jobs for 22 straight months and house prices had declined for 30 straight months.

In the face of an economic crisis that experts across the political spectrum predicted could turn into the next Great Depression, the Obama Administration had no choice but to step in aggressively. The Federal Reserve and Treasury helped keep mortgage interest rates at record lows. Because low interest rates only matter if there are mortgages available at those rates, the Administration also provided critical support for Fannie Mae and Freddie Mac, while HUD's Federal Housing Administration (FHA) stepped in to play its critical countercyclical role in helping to stabilize the housing market. The Administration proposed, and Congress enacted, a homebuyer tax credit to spur demand in the devastated housing sector. And we took steps to help families keep their homes – through mortgage modifications and FHA's loss mitigation efforts.

The results of these extraordinary but necessary actions are clear. More than 4.1 million borrowers have received restructured mortgages since April of 2009, including more than 1.4 million HAMP trial modification starts, more than 650,000 FHA loss mitigation and early delinquency interventions, and nearly 2 million proprietary modifications under HOPE Now – more than twice the number of foreclosures completed in that time. The private sector has now created jobs for 13 straight months.

HUD's careful and effective stewardship of $13.61 billion in American Recovery and Reinvestment Act (ARRA) funding has been essential to economic recovery. To date, HUD has obligated 99.6% of its ARRA grant and loan funds and expended over 63.5% of this funding – more than 5 months ahead of the aggressive timelines the Administration set down and to which the Vice President has held every Department accountable. These funds have led to the development and renovation of over 400,000 homes (Public Housing Capital Fund, Native American Housing Block Grant, Tax Credit Assistance Program, Community Development Block Grant, Lead Hazard Reduction and Healthy Homes grants). Through homelessness prevention assistance (Homelessness Prevention and Rapid Re-Housing Program/HPRP), local partners have prevented or ended homelessness for more than 850,000 people. Lastly, through the Lead Hazard Reduction and the Healthy Homes programs, over 3,800 children have been protected from lead paint-based hazards and other home health and safety risks. As a result of these activities, in the third quarter of calendar year 2010 alone, HUD ARRA recipients reported over 31,000 jobs saved or created.

Winning the Future

Now, having prevented our economy from falling into a second Great Depression, the Administration is focused on ensuring that America wins the future that makes strategic investments in our communities but also takes responsibility for our deficit. For HUD, that meant using three core principles to develop our budget:

1. Continuing to provide critical support for the housing market while bringing private capital back into the market;
2. Protecting current residents – and improving the programs that serve them; and
3. Proposing no new initiatives – while continuing to invest in initiatives that have been part of our budget the last two years and are critical to winning the future.

As such, the Department's budget for fiscal year 2012 follows the roadmap the President has laid out for keeping America at the forefront of the rapidly changing global economy. Specifically, this budget helps America:

Out-Educate. America cannot out-educate the rest of the world if a lack of quality, affordable housing prevents Americans from accessing good schools in safe neighborhoods, or if homelessness threatens the schooling of a young child. That is why the budget continues to support the Choice Neighborhoods initiative (which links HUD's investments in housing to education funding provided through the Department of Education's Promise Neighborhoods initiative), and proposes to target housing vouchers—coupled with educational and other supportive services—to homeless and at-risk families with school age children.

Out-Innovate. A clean energy economy is vital for America to compete in the new century. Through the Recovery Act's dramatic investments to green America's housing stock, HUD will improve the efficiency of 245,000 HUD-assisted affordable homes, provide comprehensive energy retrofits that will reduce energy costs by as much as 40 percent in an additional 35,000 public housing units, and complete green retrofits of 19,000 units of privately-owned, federally-assisted multifamily housing. The funding in this budget will continue to improve energy efficiency and save money for the taxpayer by allowing us to track and monitor energy use in our portfolio while we work more closely with the private sector to scale up energy retrofits that pay for themselves through loan products like the FHA *PowerSaver* and expanded FHA risk sharing. In addition, we will continue to partner with the Department of Energy to leverage weatherization assistance funds for many of these properties.

Out-Build. The President's focus on repairing our existing infrastructure and building new ways to move people, goods and information will not only put people to work now, but also spur investments that build a stronger economy. Building on the successful Partnership for Sustainable Communities with the Department of Transportation and the Environmental Protection Agency, HUD's budget includes $150 million to create incentives for communities to develop comprehensive housing and transportation plans that aim to help regions and communities approach their infrastructure investments in a smarter and more strategic way and reduce the combined cost of housing and transportation for families. Just as we cannot compete in the new economy if we fail to rebuild our highways and transit systems, nor can we ignore the importance of affordable housing in communities. For this reason, the budget proposes a $200 million rental assistance demonstration to rehabilitate—cost-effectively— some of our most valuable affordable housing assets: America's federally-subsidized affordable housing stock. We estimate that this proposal will leverage $7 billion in private debt and equity capital and, in the process, support significant job creation in communities across the country.

Reform Government So that it's Leaner, Smarter, More Transparent, and Ready for the 21st Century. President Obama said in his State of the Union address that removing overlapping and contradictory rules and regulations is essential to generating economic growth. That's why we continue to make it our focus to improve and simplify the way HUD works with other agencies. The level of interagency cooperation with both our federal and non-federal partners is unprecedented – from the Sustainable Communities Partnership (discussed above) to initiatives targeting housing and services to the homeless (with the Department of Health and Human Services and the Department of Education) to a multi-agency economic development initiative led by the Economic Development Administration in the Department of Commerce. This Department with support from HUD is committed to removing barriers to local innovation at the federal level. Through our Transformation Initiative, HUD can continue to deliver the kind of cutting edge technical assistance and research that our local stakeholders are seeking to innovate and grow their economies and is critical to improving the management and accountability of HUD's local partners. Indeed, this improved partnership with local stakeholders also means holding them accountable for their use of federal resources. As noted, the Transformation Initiative is already supporting research and demonstrations that will allow the Department to closely monitor local strategies for expending taxpayers' money. And through the newly instituted *HUDStat* internal reporting system (discussed further below), the Department is holding itself accountable for the funds it invests.

Meeting Our Responsibilities

The need for HUD's investments is clear. The devastating effect that the economic downturn has had on the housing circumstances of poor Americans was underscored in early February, when HUD released its *Worst Case Housing Needs* study results. HUD defines worst case needs as: renters with very low incomes who do not receive government housing assistance and who either pay more than half their income for rent, live in severely inadequate conditions, or both. The report showed an increase of 20 percent in worst case needs renters between 2007 and 2009. This is the largest increase in worst case housing needs in the quarter-century history of the survey, and caps an increase of 42 percent since 2001. These numbers show the scale of the challenge inherited by the Obama Administration, with a historic increase in need during the two years before we took office. Indeed, the critical housing assistance offered by HUD through the Recovery Act is a key part of HUD's response to this challenge.

In short, this Budget will achieve substantial results not only for vulnerable, low-income Americans but also for hard-hit local and state economies across the country. Its carefully targeted investments will enable HUD programs to: house almost 2.5 million families in public and assisted housing (over 60% elderly and/or disabled); provide tenant-based vouchers to more than 2.2 million households (over 45% elderly and/or disabled), an increase of over 86,000 from 2010; and nearly double the annual rate at which HUD assistance creates new permanent supportive housing for the homeless

As in fiscal year 2011, HUD's fiscal year 2012 budget is structured around the five overarching goals the Department adopted in its Strategic Plan 2010-2015. These goals reflect the Department's—and my—commitment to 'moving the needle' on some of the most fundamental challenges facing America as we try to win the future. Indeed, every month, I hold *HUDStat* meetings on one or more of these goals, to assess progress and troubleshoot problems in order to: 1) ensure that HUD is as streamlined and effective as possible in the way that we administer our own programs and partner with other federal agencies; and 2) hold our grantees accountable for their expenditure of taxpayers' hard-earned dollars.

Goal 1: Strengthen the Nation's Housing Market to Bolster the Economy and Protect Consumers

We project that FHA will continue to support the housing market, insuring $218 billion in mortgage borrowing in 2012. These guarantees will support new home purchases and re-financed mortgages that significantly reduce borrower payments. Over the last two years, FHA has helped over 2 million families buy a home – 80 percent of whom were first-time buyers. FHA also has helped nearly 1.5 million existing homeowners refinance into stable, affordable products, with monthly savings exceeding $100 in most cases. FHA financing was used by 38 percent of all homebuyers, insuring, along with the VA and federal farm programs, 81 percent of all loans to African Americans and 73 percent to Hispanics in 2009. But FHA is also a vital resource for homeowners facing foreclosure. FHA's loss mitigation program minimizes the risk that financially struggling borrowers go into foreclosure. Since the start of the mortgage crisis, it has helped more than half a million homeowners.

Paving the Way for Private Capital to Return
It is critical, however, that we pave the way toward a robust private mortgage market. This was a central goal of the Administration's recently released report on *Reforming America's Housing Finance Market*, which proposed to wind down Fannie Mae and Freddie Mac, fix fundamental flaws the mortgage markets, better target the government's support for affordable housing, and provide choices for longer-term reforms.

Taking steps to bring private capital back is a process that HUD began many months ago – and I want to thank this committee for passing legislation in the last Congress to provide more flexibility to FHA's mortgage insurance premium structure. With this authority, FHA announced a premium increase of 25 basis points last month.

Indeed, FHA has already taken significant steps to facilitate the return of private capital, making the most sweeping combination of reforms to credit policy, risk management, lender enforcement, and consumer protection in FHA history. These reforms have strengthened its financial condition and minimized risk to taxpayers, while allowing FHA to continue fulfilling our mission of providing responsible access to homeownership for first-time homebuyers and in underserved markets.

FHA implemented a "two-step" credit score policy for FHA purchase borrowers. Purchase borrowers with credit scores below 580 are now required to contribute a minimum down payment of 10 percent. Only those with stronger credit scores are eligible for FHA-insured mortgages with the minimum 3.5 percent down payment.

The goal of these reforms is to balance the need to provide access to our mortgage markets with the need to protect taxpayers from financial risk. That's also why in October of 2009, we hired the first Chief Risk Officer in the organization's 75 year history -- and last July, FHA received Congressional approval to formally establish this position and create a permanent risk management office within FHA, for which the Risk Officer is now Deputy Assistant Secretary. With this new office and additional staffing, FHA is expanding its capacity to assess financial and operational risk, perform more sophisticated data analysis, and respond to market developments.

Further, FHA has strengthened credit and risk controls – toughening requirements on FHA's Streamlined Refinance program, making several improvements to the appraisal process and to condominium policies, and implementing the two-step credit score policy discussed above. We are very grateful for the support that Congress has provided with our efforts to reduce fraud and risk. Through the $20 million Combating Mortgage Fraud funds that Congress granted HUD in FY2010, we have already begun to implement several risk management and systems modernization reforms to incorporate modern risk and fraud tools and counterparty data consolidation.

Additionally, FHA introduced policy changes and improved lender oversight and enforcement to increase the quality of FHA insured loans. In April 2010, we published a rule eliminating FHA approval for loan correspondents and increasing net worth requirements for lenders, thereby strengthening FHA's counterparty risk management capabilities.

As a result of these actions, FHA finds itself in a stronger position today. In particular:

- The quality of loans made in 2009 and 2010—the years FHA has done the most significant volume—is much improved. FY 2010 is the highest quality FHA book-of-business on record.
- Credit score distribution continues to be significantly improved. The average credit score on current insurance endorsements has risen to nearly 700. And for the second straight quarter, average credit scores are equal across refinance and purchase books of business.
- Loan performance, as measured by early period delinquency and seasonally adjusted serious delinquency rates, continues to show significant improvement. [1]

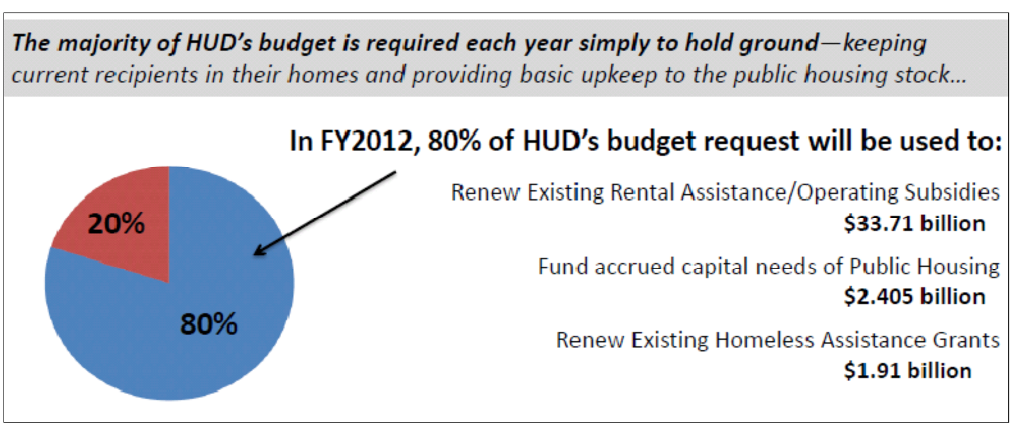
The Department is equally focused on assisting consumers throughout the homeownership process, from increasing their knowledge of the mortgage products they are considering to protecting them from fraud in any phase of that process. Accordingly, the budget also includes $168 million for housing and homeowner counseling through HUD and the Neighborhood Reinvestment Corporation (NeighborWorks). Over 4 million households have benefited from housing counseling since April 2009.

Goal 2: Meet the Need for Quality, Affordable Rental Homes

With more than one-third of all American families renting their homes, it remains more important than ever to provide a sufficient supply of affordable rental homes for low-income families.

Why HUD Investments are Vital
While the median income of American families today is over $60,000, families who live in HUD-assisted housing have a median income of $10,200 per year – and more than half are elderly or disabled. The extraordinary vulnerability of residents in HUD-assisted programs is why we have chosen to protect the funding that houses these families. Indeed, fully 80 percent of our proposed budget keeps current residents in their homes and provides basic upkeep to public housing while also continuing to serve our most vulnerable populations through our homeless programs.

HUD's 2012 budget requests $19.2 billion for the Housing Choice Voucher program to help more than two million extremely low- to low-income families with rental assistance live in decent, safe housing in neighborhoods of their choice. The budget funds all existing mainstream vouchers and provides new vouchers targeted to homeless veterans, families, and the chronically homeless. The Administration remains committed to working with the Congress to improve the management and budgeting for the Housing Choice Voucher program, including reducing inefficiencies, and re-allocating Public Housing Authority voucher reserves based on need and performance.



[1] HUD's Annual Report to Congress Regarding the Financial Status of the FHA Mutual Mortgage Insurance Fund FY 2010 can be found at http://www.hud.gov/offices/hsg/rmra/oe/rpts/actr/2010actr_subltr.pdf

Figure 1

The Budget also provides $9.4 billion for Project-Based Rental Assistance to preserve approximately 1.3 million affordable units through increased funding for contracts with private owners of multifamily properties. This critical investment will help extremely low- to low-income households to obtain or retain decent, safe and sanitary housing. Similarly, in combination with full funding of the Public Housing Operating Fund,[2] the $2.4 billion requested for the Capital Fund will help to preserve the over 1 million units within that program's portfolio.

Tough Choices:
Putting Excess Public Housing Operating Fund Reserves to Work

This Budget also holds our partners accountable for the funding they have received from HUD. Indeed, while the growing need demonstrated by the *Worst Case Housing Needs* survey clearly justifies fully funding the Public Housing Operating Fund at $4.96 billion, we are requiring that public housing authorities (PHAs) to contribute $1 billion from their excess reserves. Many PHAs These resources were have set aside these reserves so that our PHAs could continue to effectively manage and operate public housing properties during a rainy day – and it is clear that rainy day is here.

Outbuilding our Competitors: Rebuilding our Nation's Affordable Housing Stock
The preservation of critically needed 'hard units' of rental housing in this country is among our top priorities, particularly as the number of renter households with severe affordability issues has increased significantly in recent years. Our preservation agenda includes regulatory and administrative changes to make it easier for owners to preserve HUD-assisted housing as well as creating tools that will put the Department's stock of affordable housing on sound financial and regulatory footing for the long-term. To this end, the Budget includes $200 million for a demonstration and rigorous evaluation of the conversion of up to 255,000 public housing units to some form of long-term project-based rental assistance contracts that will enable PHAs to leverage private debt and equity capital to make repairs. Through similar conversions, the demonstration will preserve 7,600 privately-owned, HUD-assisted units in so-called "orphan" programs at risk of leaving the affordable housing stock. This funding request will allow us, working with key stakeholders, to develop new preservation tools to help ensure that we protect our affordable rental housing stock.

The President's Budget also includes two revenue proposals to reform the Low Income Housing Tax Credit (LIHTC) that will complement the Department's overall preservation agenda:

- Replace the current cap on household income at 60 percent of area median income with the option that properties serve households whose *average* income is no greater than 60 percent of AMI and with no individual household above 80 percent of AMI. These changes to the low-income occupancy threshold requirements will accomplish three things: (i) allow greater income-mixing at the project level, creating opportunities for workforce housing; (ii) help align LIHTC with HUD's

[2] $1 billion of the amount needed to fully fund the Operating Fund at $4.962 billion represents excess reserves held by PHAs, which have grown substantially over the past several years. The Department will ensure that PHAs have sufficient remaining reserves to stay on sound financial footing.

and USDA's affordable housing programs (which define low-income at 80 percent of area median income); and (iii) lead to the creation of more units targeted to the lowest income households.[3]
- Make the 4% credit a more viable source of funding for the preservation of the federal affordable housing stock by allowing allocating agencies to give a limited number of qualifying properties a 30% basis boost in the context of preserving, recapitalizing, and rehabilitating existing affordable housing, including housing targeted by our rental assistance demonstration as well as other programs. This means that a greater amount of equity could be raised per credit even at the higher yields required by investors for 4% investments, which in turn will generate more interest in LIHTC preservation deals within the investor and developer community.

Finally, the Budget once again calls for funding of the National Housing Trust Fund (NHTF) at $1 billion. The recent *Worst Case Housing Needs* report underscores the reality that, since well before the recent recession, extremely low income renters (those whose household incomes are below 30 percent of median) face the most severe housing shortage and cost burden of any Americans. In addition, the report shows that for renters below 30 percent of area median income, the shortage of affordable and available units increased from 5.2 million to 6.4 million from 2007 to 2009, with just 36 affordable and available units per 100 extremely low income renters in 2009, down from 44 units just two years prior. Enacted in 2008, the NHTF was designed to provide capital resources to build and rehabilitate housing to fill this precise – and growing – gap in the nation's rental housing market. The Administration wants to work with Congress to provide this crucial funding.

Goal 3: Utilize Housing as a Platform for Improving Quality of Life

HUD, as well as state and local policymakers and our private sector partners recognize that stable, affordable housing provides an ideal, cost-effective place to deliver healthcare and other social services focused on improving life outcomes for individuals and families.

Out-Innovating: Solving Homelessness, Saving the Taxpayer Money
Nowhere is this clearer than in the successful efforts in communities around the country to address homelessness. These efforts have yielded a substantial body of research, which demonstrates that providing permanent supportive housing to chronically ill, chronically homeless individuals and families not only ends their homelessness, but also yields substantial cost saving in public health, criminal justice, and other systems.

This year, we have made a specific effort to target homeless veterans. As our young men and women return from Afghanistan and Iraq, they deserve to be treated with dignity and honor. Yet our nation's Veterans are fifty percent more likely than the average American to become homeless. More than 11,000 service members returning from those wars have already been forced to live on the streets or in homeless shelters. And more Vietnam-era Veterans remain homeless today than troops who died during the war itself. Nowhere is our obligation to our citizens, and to those who have defended our nation, more important, more visible, or more urgently necessary than in our commitment to end homelessness.

[3] It is important to note that this income averaging proposal would increase our ability to preserve HUD-assisted properties. 69,224 households living in public housing and 23,271 households in multifamily housing have incomes above 60% of AMI. This proposal allows these units to be counted in basis, increasing the equity flowing to these projects for preservation.

IMPACT Analysis:
How HUD and the VA Are Partnering to End Veterans Homelessness

The Homelessness Prevention and Rapid Re-housing Program, created by the Recovery Act, has helped local partners prevent or end homelessness for more than 850,000 people – including about 18,000 veterans. And its effects have had an equally innovative impact on how the Federal government responds to homelessness – particularly veterans' homelessness.

HUD and the Department of Veterans' Affairs are collaborating on "HUD-VASH," which combines HUD's Housing Choice Voucher rental assistance with VA's case management and clinical services. This partnership is critical to ending veterans' homelessness. When President Obama was sworn into office, the program helped less than 1,200 veterans lease properties. One of the reasons veterans couldn't use HUD-VASH vouchers was that they couldn't provide something as simple as a security deposit.

HPRP helped many veterans overcome these kinds of obstacles to find a home. *By the end of 2010, HUD-VASH had accelerated its pace of housing veterans by nearly 20 times – helping more than 21,000 veterans*.

As the outgoing Chair of the U.S. Interagency Council on Homelessness, I am pleased that this Budget provides over $2.5 billion to make progress toward the ambitious goals of *Opening Doors*: *the Federal Strategic Plan to Prevent and End Homelessness,* which was released by the Administration in June 2010. *Opening Doors* establishes a five-year timeline for ending chronic and veteran homelessness and commits to ending family and youth homelessness over a decade. This budget will enable our stakeholders to make substantial progress on these ambitious timelines. It includes:

- Over $2.3 billion for Homeless Assistance Grants to maintain existing units and expand prevention, rapid-re-housing, and permanent supportive housing;

- $145 million in new housing vouchers and related administrative fees for over 19,000 homeless veterans and other homeless individuals and families who receive education, health care and other services through the Departments of Education (DoE), Health and Human Services (HHS) and Veterans Affairs (VA).

- $50 million to test new incentives—including service coordinators and special payments—to encourage housing authorities and private landlords to serve more homeless persons.

These funding increases will enable HUD to assist approximately 78,000 additional homeless individuals and families.

The Budget also provides a total of $953 million for the Housing for the Elderly (Section 202) and Housing for Persons with Disabilities Programs (Section 811). This not only preserves assistance in all existing units, but also includes $499 million for new construction to respond to the overwhelming demand among low-income elderly, including frail elderly, and disabled individuals for affordable housing that allows them to continue living independently in the community. The Administration remains committed to further updating and reforming these crucial programs, building on a foundation that was provided by two bipartisan bills passed in the 111th Congress. Those bills offered key steps forward – for Section 811, authorizing HUD to provide operating-assistance-only funding through States which demonstrated an integrated health care and housing approach to serving disabled households and for Section 202, authorizing key preservation tools including new Section 8 contracts to maintain long-term affordability on aging properties. In 2012, the Administration will have in place the framework to ensure that these programs better leverage other housing and health care resources, afford streamlined processing to improve timeframes, and are targeted to elderly and disabled individuals who can best benefit from affordable housing.

Tough Choices:
Reduced funding for Section 202 and 811 New Construction

While the budget provides nearly a half billion for new construction in the 202 and 811 programs, this does represent a 15 percent cut from HUD's FY 2010 enacted. Given the progress of program reforms paired with the overwhelming need for affordable housing among these vulnerable populations, these are difficult cuts. But with the proposed reforms, HUD will seek ways to maximize use of new construction funds.

Goal 4: Build Inclusive Sustainable Communities Free from Discrimination

Each year HUD dedicates approximately a quarter of its funds to the capital costs of housing and economic development projects throughout the country, which become even more critical for communities hardest hit by our country's economic downturn. As with HUD's rental assistance programs, HUD's capital grants—including the Public Housing Capital Fund, HOPE VI capital grants, 202 capital advances, 811 capital advances, CDBG, HOME, HOPWA and ESG—tend to assist areas of great need. For example, 61 percent of HUD capital dollars are invested in cities and counties with an unemployment rate greater than the national average. Indeed, the average HUD capital dollar is dedicated to a city or county with an unemployment rate of 10.5 percent, nearly one full percentage point above the national unemployment rate.

Through these grants, HUD and its partners are able to provide better opportunities for people living in neighborhoods of concentrated poverty and segregation, and offer choices that help families live closer to jobs and schools. These priorities reflect a core belief: when you choose a home—you also choose transportation to work, schools for your children, and public safety. You choose a community—and the amenities available in that community. Programs such as the Community Development Block Grant (CDBG), the Rural Innovation Fund, and Choice Neighborhoods are targeted to areas of need, to provide locally-driven solutions to overarching economic development challenges.

Strategic Investments in America's Economic Future: the Community Development Block Grant (CDBG)
The Budget's proposes a 7.5 percent reduction in CDBG funding, relative to the FY 2010 appropriated level for CDBG formula program. This reduction acknowledges two realities. The first is the need to take responsibility for our deficit, even if it means reducing support for important, effective programs such as CDBG. Second, it demonstrates the Administration's continued commitment to assisting local governments and states in improving living conditions in low- and moderate-income neighborhoods across the country.

As the Federal government's primary community development program, CDBG serves as the backbone of state and local community and economic development efforts. In FY 2010, CDBG was estimated to reach more than 7,250 local governments through various components of the CDBG Programs – the Entitlement Communities Program, the Urban County Program, the State Program, and the Insular Area Program. In FY 2010, CDBG investments directly created 19,293 jobs, not including any indirect effect on additional jobs. More than 109,000 households received some form of housing rehabilitation assistance. More than 10 million people benefited from CDBG-funded public service activities and more than 4 million benefited from CDBG-financed public improvements.

State and local governments are facing unprecedented budget shortfalls and fiscal constraints. These constraints make CDBG funding more essential than ever for local communities; CDBG funding is increasingly one of the few resources available at the local level to support housing rehabilitation, public improvements and economic development assistance – despite growing needs, local governments have often had no choice but eliminate some of these activities from their own budgets.

Tough Choices:
Reducing Funding for CDBG, HOME and the University Community Partnership

This Budget reduces funding for the Community Development Block Grant (CDBG) by 7.5 percent or $300 million, and HOME Investment Partnerships by 9.5 percent or $175 million, relative to current funding levels, while eliminating funding for the University Community Partnership. While the Budget does provide $5.5 billion in CDBG and HOME funds—substantial, flexible resources that allow State and local grantees to improve infrastructure, build and rehab affordable housing, provide rental assistance, and create and retain jobs—these are difficult cuts, particularly given the financial challenges states and localities are facing. But American families are tightening their belts – and we need to do the same.

Outbuilding the Rest of the World: Sustainable Communities
Attracting new businesses to our shores depends on urban, suburban and rural areas that feature more housing and transportation choices, homes that are near jobs, transportation networks that move goods and people efficiently, all while lowering the cost and health burdens on families, businesses and the taxpayer. Unfortunately, today, congestion on our roads is costing us five times as much wasted fuel and time as it did 25 years ago, and Americans spend 52 cents of every dollar they earn on housing and transportation combined.

Communities from Dallas to Salt Lake City have demonstrated that by better linking housing, transportation and economic development, parents can spend less time driving and more time with their children; more families can live in safe, stable communities near good schools and jobs; more kids can be healthy and fit; and more businesses have access to the capital and talent they need to grow and prosper. Indeed, communities that have planned for growth by linking these together have a built-in competitive edge when it comes to attracting the jobs and private investment they need to win the future.

Regions across the country understand this, which is why this budget continues one of the most groundbreaking cross-agency collaborations in recent history: the Partnership for Sustainable Communities, which includes HUD, DOT and EPA.

When the Obama Administration announced the availability of regional and local planning grants for sustainable communities, demand was extremely high, as we received applications from all 50 states and two territories – from central cities to rural areas, small towns and tribal governments. Over half of HUD's Sustainable Communities Regional Planning Grants were awarded to regions with populations less than 500,000 and rural places with fewer than 200,000 people. And of the 62 planning grants awarded jointly by HUD and the Department of Transportation almost 30 percent went to rural communities.

At a time when every dollar the Federal government invests in jumpstarting the economy is critical, the Partnership helps ensure that all agencies are coordinating efforts and targeting resources more strategically. Reflecting this new collaboration, the initial round of grants was judged by a multidisciplinary review team, drawn from eight federal agencies and from partners in philanthropy. We have heard clearly from local businesses and elected officials that the joint grants supported by the Partnership are helping them achieve their own local visions: working across their own jurisdictional lines to coordinate land use, housing, and transportation investments on regional and community levels; creating more sustainable development patterns that reduce the crushing financial housing and transportation cost burden too many working families face today; and putting in place an infrastructure that will make them competitive in the global, 21st century economy.

HUD's 2012 budget requests another $150 million to create incentives for more communities to develop comprehensive housing and transportation plans that result in jobs, economic growth, easier commutes and more efficient transport of goods. Up to $5 million will be used to develop more sophisticated data tools to help owners and operators identify and implement energy efficiency measures that can lower the cost of heating, cooling and lighting in their HUD-assisted properties.

IMPACT Analysis:
How Sustainable Communities Funding Creates Jobs:

In the fall of 2010, HUD and the Department of Transportation awarded nearly $170 million in planning grants to regions and communities across the country. HUD awarded a $3.7 million regional grant to a consortium of public and private partners in Austin, Texas, which is developing a long-range regional transportation plan connecting a network of 37 mixed-use, mixed-income communities closely linked to transit and job centers. Specifically, with this planning grant, the city intends to build a trucking/air/rail transportation hub near the Austin International Airport that will employ 2,000 people from the region. In addition, Austin's use of these funds will help 3,000 small, family-run businesses expand or open a second location contingent on each of these businesses hiring 1 new worker who has been unemployed for a year or more. This will create an additional 3,000 jobs in an area of the country where small businesses are the major driver of growth. Lastly, with the expertise of private, higher education and public partners, the consortium is using the grant to redevelop up to ten strategically located properties for workforce housing and small businesses, directly and indirectly creating as many as 2,000 additional jobs.

Austin's Department of Economic Growth and Redevelopment Services estimates that HUD's grant will help *create at least 7,000 permanent jobs and thousands more in the construction sector*, generating an additional *$1.1 billion of economic growth over the next five years and saving the taxpayer $1.25 billion* through better connected housing and businesses, more people employed and fewer people dependent on government services.

Out-educating the Rest of the World: Choice Neighborhoods
The President has made clear that winning the future depends on America winning the race to educate our children. But that's not possible if we are leaving a whole generation of children behind in our poorest neighborhoods. That is why the budget also brings federal partnerships to connect historically isolated people and neighborhoods to local, regional, and national economies by providing a third year of funding ($250 million) for another signature element of the Administration's place-based approach -- the Choice Neighborhoods initiative.

Choice Neighborhoods builds upon the HOPE VI program launched by previous HUD Secretaries Jack Kemp and Henry Cisneros and congressional champions like Senators Kit Bond and Barbara Mikulski. HOPE VI restored the most severely distressed public housing across America and did so while leveraging double the government investment in additional private development capital. Choice Neighborhoods will continue transformative mixed-finance investments in high-poverty neighborhoods where distressed HUD-assisted public and privately owned housing is located. It will bring private capital and mixed-use, mixed income tools to transform affordable housing in 5 to 7 neighborhoods with grants that primarily fund the preservation, rehabilitation and transformation of HUD-assisted public and privately-owned multifamily housing. Like HOPE VI, it will also engage the private sector and the "third sector" of non-profits, philanthropies and community development corporations who have become some of our most sophisticated affordable housing developers and important civic institutions.

Choice Neighborhoods is a central element of the Administration's inter-agency strategy to provide local communities with the tools they need to revitalize neighborhoods of concentrated poverty into neighborhoods of opportunity. This strategy requires HUD, the Department of Justice, the Department of Education, the Department of Health and Human Services, and other agencies to work together, co-investing, and pooling their expertise as part of a focused Neighborhood Revitalization Initiative where local actors can seamlessly integrate diverse federal funding streams to tackle complex problems. In particular, through partnerships with Education's Promise Neighborhoods initiative, Choice Neighborhoods will help ensure that the President's commitment to out-educating the rest of the world applies to every child in America, regardless of their neighborhood or the kind of housing they grow up in.

The Department's administration of the first rounds of funding for Choice Neighborhoods and the Sustainable Communities Regional and Community Challenges grants exemplify how our practices generate effective partnerships with local housing and community development efforts. In the past, many federal grant programs followed a rigid, top-down, 'one-size fits all' approach that dictated what local policymakers could and could not do rather than listening to them and providing the tools they needed to meet local needs. Having served in local government myself, I am committed to a collaborative approach responsive to local needs – and believe the results thus far demonstrate that we are making good on that commitment.

Ensuring Rural Communities Can Compete in a 21st Century Global Economy

The Administration has placed a significant emphasis on ensuring that America's rural communities are competitive in the 21st century economy. Rural communities generally have less access to public transportation, along with higher poverty rates and inadequate housing. This Administration recognizes that residents of these communities also face unique challenges when it comes to accessing health care, grocery stores, and adult education opportunities, among others.

HUD currently invests billions of dollars in rural communities through its core rental assistance programs and block grants. The State CDBG program uses 30% of annual CDBG funding for non-entitlement areas across the country. Because small towns and rural areas often lack the basic modern infrastructure that citizens in larger communities can take for granted, states annually spend over 55% of their CDBG funds on basic public improvements such as water and sewer lines, paved streets and fire stations. And because rural communities need good jobs to sustain themselves, one out of every eight State CDBG dollars is spent on economic development. In FY 2010, State CDBG funds created or retained over 12,000 jobs for lower-income rural Americans.

In addition to the special category of funding we created for small towns and rural places in the Sustainability Regional Grant program, this budget requests $790 million to fund programs that are specifically targeted to housing and economic development activities in rural communities including:

- $25 million for the Rural Innovation Fund to support innovative approaches dedicated to addressing the problems of concentrated rural housing distress and community poverty through comprehensive community development, housing and economic development activities. The fund builds on the Rural Housing and Economic Development program which has built and rehabbed over 17,000 homes, created credit unions and business incubators that have helped more than 2,000 businesses get off the ground, and supported housing counseling and homeownership programs – over the last decade creating 13,000 jobs, providing job training to nearly 38,000 people and leveraging more than three times the quarter billion dollars HUD has invested in this program in other public and private funds providing an excellent return for the taxpayer. With the

Rural Innovation Fund, we will support these kinds of efforts on the larger scale these challenges require.

- $25 million for the Rural Housing Stability Program to assist homeless persons in rural communities. Since 2010, HUD has provided targeted Homeless Assistance Grants to persons living in small communities through a set-aside. As part of the Homeless Emergency Assistance and Rapid Transition to Housing (HEARTH) Act, the Rural Housing Stability program was specifically authorized in order to provide housing, training, and services for homeless individuals and families, as well as those families at risk of becoming homeless.

- $782 million to fund programs that will support housing and development initiatives in American Indian, Alaska Native, and Native Hawaiian communities. As the single largest sources of funding for housing Indian tribal lands today, HUD initiatives in Indian country continue to have some of the Department's most successful track records. Programs like Indian Housing Block Grants, Indian Home Loan Guarantees, and Indian Community Development Block Grants support development in remote areas where safe, decent, affordable housing is desperately needed. HUD also directly supports housing and economic development initiatives in remote areas of Hawaii, through the Native Hawaiian Housing Block Grant Program and Native Hawaiian Loan Guarantee Program.

Winning the Future: A Successor to Empowerment Zones
The Budget also includes a multi-agency initiative, Growth Zones, to assist communities in using their funds more effectively to support job creation—an improved successor to the Empowerment Zones that expire this year. Coupling targeted tax benefits and grant funding, the Budget supports the launch of an interagency effort led by the Department of Commerce's Economic Development Administration (EDA), and supported by HUD and the Department of Agriculture. In addition, the Budget also supports another interagency effort with EDA that helps communities to better employ the Federal investments they already receive (such as CDBG and HOME), promote high-impact strategies, and build the local capacity needed to execute those strategies in economically distressed areas. This effort will enable these communities to create more effective partnerships with businesses and non-profits that will attract critical private investments to promote job creation. With leveraged support from HUD, other Federal agencies, and the philanthropic community, the Federal Government offers targeted EDA funds, technical assistance, and a National Resource Bank – a "one-stop shop" of experts that communities can draw upon for a full range of services, including fiscal reforms, re-purposing land use, and business cluster and job market analysis.

Inclusive Communities for All
Finally, a sustainable community is one in which all people—regardless of race, ethnicity, religion, sex, disability, or familial status—have equal access to housing and economic opportunities. Throughout its portfolio of programs, HUD is committed to maintaining that inclusivity and providing accountability in housing and lending practices nationwide. Through inclusive development, education, enforcement of fair housing laws, and participation of historically underrepresented populations in HUD policies and planning, HUD will affirmatively further fair housing and the ideals of an open society. To that end, the Department is requesting $72 million—$11 million more than the fiscal year 2011 request— to support the division of Fair Housing and Equal Opportunity's administration of the Fair Housing Initiative Program (FHIP) and Fair Housing Assistance Program (FHAP).

Goal 5: Transform the Way HUD Does Business

Winning the future means reforming government so it's leaner, transparent, and ready for the 21st century. While HUD programs make a big difference in the lives of ordinary Americans, this Administration is also committed to making government more efficient, more effective and more accountable. Particularly in today's tight fiscal environment, the need for responsible budgeting has never been greater – and making smart, responsible choices depends on quality information. That is why this Budget demonstrates a strong commitment to conducting the research and collecting the data we need to understand what works, what doesn't, and what we need to do better – so that HUD can better serve the American people, better protect the American taxpayer and better partner with communities to meet the challenges of the decades ahead.

The Budget provides up to $120 million for the Transformation Initiative (TI) Fund. In fiscal years 2010 and 2011, thanks to the TI Fund, HUD began to fundamentally alter how we approached our investments in delivering technical and capacity-building assistance, conducting research demonstrations, and maintaining and upgrading our IT systems so that we can hold ourselves and our local partners accountable for the outcomes needed to achieve the Department's strategic goals.

More of What Works and Less of What Doesn't: Research and Demonstrations
A key element of HUD's transformation strategy is to provide a predictable stream of funding for high quality research and evaluation that can inform sound policymaking. Allocating a small increment of program funds to this account will enable HUD to subject programs continuously to rigorous evaluation. Absent investment in key evaluations, demonstrations and analysis, HUD's capacity to support program refinement, measure progress toward goals and engage in robust policy development is extremely limited. This new era of evidence-based policymaking demands that HUD build back its internal research capacity and work in partnership with the research community to evaluate existing programs and design new policy approaches to solving America's housing and community development challenges.

The Research, Evaluation, and Performance Metrics initiative will supplement Research and Technology (R&T) appropriations in order to provide the nation's basic infrastructure of housing data. The more careful and scientific approach enabled by these additional research investments will highlight for policymakers what works and what needs reform. Systematic research enables HUD to monitor results and undertake timely modifications of programs and policies that fail to produce results. A component of this research and evaluation will develop the right set of metrics to track program performance between evaluations to inform management decision-making. In fiscal year 2010, the Department was able to supplement a $48 million R&T appropriation with $26 million in Transformation Initiative Research, Evaluation, and Program Metrics funds. This funding permits the Department to determine how certain program functions ought to cost or ought to operate.

For example, the current allocation method for Housing Choice Voucher (HCV) administrative fees is not based on rigorous and objective studies, and may over-compensate some public housing agencies (PHAs) while underfunding others. The Department has used TI funds to develop a careful examination of the costs of administering the HCV program at high-performing and efficient PHAs in a wide variety of communities.

For fiscal year 2012, the Department anticipates approximately $25 million to be allocated for research projects. HUD's proposed transformational approach to research would also inform the decisions of a broad network of public and private sector actors. A key feature of the new approach is to partner with other Federal agencies, such as the Departments of Transportation and Energy, and the Environmental Protection Agency, on research topics of mutual interest. HUD will again confer with OMB and the appropriate Congressional Appropriations and Authorizing committees before finalizing the research agenda for funding under the Transformation Initiative. Combined with efforts already in progress, HUD expects that this research will both improve program effectiveness and generate savings over time.

An additional strategic thrust of the Transformation Initiative was to enable HUD to design and execute a series of major research demonstrations. These trials of new program ideas provide a controlled mechanism to improve programs and help state and local governments develop more effective strategies for housing and community and economic development. Demonstrations are necessary to test innovative program approaches to improve the delivery and reduce the cost of public services. In short, well-run demonstration programs—such as the Jobs Plus, Moving to Opportunity, and Effects of Housing Vouchers on Families demonstrations of the early 1990s—enable the federal government and our local partners to fund what works, and defund what does not. However, demonstrations generally require funding over several years and often allow waiver of program rules when conducted to pilot ideas for existing program changes. Flexible funding may be needed to cover design resources, additional program costs, such as incentives for participating households, and evaluation of the impacts over several years.

Using funding flexibility granted in fiscal year 2010, HUD launched important demonstrations to test policy interventions in the Family Self Sufficiency (FSS) program, rent reforms in our major rental assistance programs, and the first round of Choice Neighborhoods grants, among others. For instance, the FSS program encourages public housing tenants to increase earnings by allowing them to set aside the rent increases they would otherwise pay to further specific goals, such as education and homeownership. TI funds will be used to test whether this is a cost-effective approach to increasing self-sufficiency that can be taken to scale. HUD anticipates allocating $15 million in fiscal year 2012 TI funding to program demonstrations, and, as in fiscal years 2010 and 2011, HUD will confer with the appropriate Congressional Appropriations committees before finalizing planned demonstrations under the Transformation Initiative. These demonstrations will, in conjunction with *HUD Stat*, be critical for informing funding decisions, as well as the re-engineering and streamlining of business processes and procedures in HUD's programs.

21st Century Technology to Protect the Taxpayer's Investment
Funding for Information Technology (IT) modernization and development is not requested under the TI Fund for fiscal year 2012. Having assessed the fiscal year 2010 planning and implementation efforts, HUD has determined that funding these activities under the Working Capital Fund in fiscal year 2012 will allow the Department to better align the account structure and decision-making process with budget planning and investment lifecycle management policies. Within the TI Fund, HUD will utilize significant balances from fiscal year 2010, as well as funds available in fiscal year 2011, to continue the execution of priority IT development, modernization, and enhancement efforts, including FHA Transformation and the Next Generation Voucher Management System.

The FHA Transformation project involves the development of a modern financial services IT environment to better manage and mitigate counterparty risk across all of FHA's Insurance Programs. The system will minimize the exposure of our Insurance Funds and support the restoration of the capital reserve ratio to congressionally mandated levels by enabling risk detection, fraud prevention and the capture of critical data points at the front-end of the loan lifecycle. More simply put – FHA Transformation will enable HUD to identify trends, and seamlessly take action, before problems occur. This approach will protect consumers and the economy by ensuring that safe underwriting standards are adhered to, as FHA approaches $1 trillion of Insurance-in-Force. Importantly, FHA Transformation will also allow HUD to start the careful process of migrating relevant portions of our legacy applications, most of which were built in a 1970's era programming language, to a more cost-effective platform.

The Next Generation Voucher Management System (NGVMS) performs a Department-wide reengineering of the current voucher management business models and processes. NGVMS will replace 20-year-old legacy systems and Excel-based budget spreadsheets with a solution that establishes uniform processes and a standard set of rules and regulations that support all of HUD's rental assistance programs. The system will support enhanced budget planning and forecasting capabilities, improve grantee reporting and data integrity, and ensure that programs comply with the requirements of the selected provisions from the proposed Section 8 Voucher Reform Act (SEVRA).

In addition to improving systems that support HUD's programs, the agency is also investing in technology to improve HUD's administrative processes. For example, the HUD Integrated Acquisition Management System (HIAMS) will automate all phases of the acquisition lifecycle to create greater accountability and transparency, as well as enable timely processing of procurement actions. The agency's current process is manually intensive and highly susceptible to errors. HIAMS will reduce processing inefficiencies, increase visibility into the acquisition process, and enable HUD to obtain services faster. The system utilizes the most widely adopted federal acquisition management software, a solution that is currently used by more than 80 organizations across the civilian, intelligence and defense sectors.

Reforming Government and Improving Accountability with Cutting-Edge Technical Assistance
The community development field is evolving to a more comprehensive, sustainable approach to neighborhoods and cities. As noted, HUD has embraced this change with new initiatives like Sustainable Housing and Communities, Choice Neighborhoods, and the Neighborhood Stabilization Program. In order to realize this expanded vision, the nation needs local practitioners—both local government and non-profit partners—who understand a more comprehensive approach, who can use current technology to assess needs and to measure success, and who have modern skills to deliver results and save money for the taxpayer.

The Transformation Initiative recognizes that enhanced and focused information, and more targeted support for grantees, will result in better program administration and more integrated planning and action that cross programs and jurisdictions. Effective responses to urban and housing challenges increasingly require coordination and awareness of diverse areas of knowledge: housing finance as well as land use planning; economics as well as energy efficient design; community development as well as transportation planning; accessible design as well as job creation strategies.

The Transformation Initiative is helping HUD to develop a new level of technical assistance and capacity building to federal funding recipients. Traditionally, HUD has delivered compliance-oriented technical assistance, funded through individual program accounts that ensure grantees are fully aware of the rules governing HUD's disparate programs. HUD's fiscal years 2010 and 2011 budgets proposed rolling these accounts into one broad technical assistance effort to be funded from global transfers to the TI Fund. Central funding through the Transformation Initiative has allowed the Department to develop comprehensive technical assistance efforts that focus on skills needed to improve program outcomes, rather than merely reinforcing program compliance.

In the 2012 Budget, HUD once again requests discretion to target technical assistance funding to those programs that need it most based on the capacity of current grantees, new program requirements (e.g., the continued implementation of the HEARTH Act, or implementation of new programs such as Choice Neighborhoods or Sustainable Housing and Communities), broader economic and social imperatives (e.g., a spike in homelessness, or the impact of high energy and housing costs on housing affordability), or unanticipated crises (e.g., natural disasters). In order to ensure that these critical but limited resources are targeted appropriately, HUD will continue to evaluate the technical assistance needs of its grantee communities in fiscal year 2011 with Transformation Initiative funds and build on those findings with funds from fiscal year 2012.

In particular, HUD will pilot a new approach—involving twelve other agencies including the White House—aimed at improving the capacity of local governments in chronically distressed cities and developing partnerships to support job creation and economic development. Many of the cities that have historically driven America's economic growth are now amongst its most economically distressed. These cities have struggled to return to a place of economic productivity and opportunity after decades of industrial decline—a challenge exacerbated by the recent economic downturn. This initiative is designed, not to provide additional funding, but instead to ensure that communities are using the resources already available to them more effectively and efficiently so they can compete in the global economy.

As part of this effort, the Transformation Initiative will support the creation of a National Resource Bank (NRB). The Bank is so named because it will be a repository of technical assistance for local governments across the nation, but will not provide direct financial resources. The NRB will align and aggregate public and private funds to provide cities tailored technical support through a "one-stop-shop" of national experts with wide-ranging skills that are critical for economic development. These include fiscal reforms, repurposing land use, and business cluster and job market analysis, to name a few. The NRB will help lay the foundation for economic recovery and transformation in these cities through truly place-based support that leverages existing strategic partnerships between local governments, federal regional office staff, and the philanthropic community and helps to foster further linkages for the long-term benefit of these cities. The local demand for the capacity-building assistance that the NRB will provide is broad and sustained. Cities have had few options for building organizational capacity since the 1970s, and recent budget cuts have created even greater strains on capacity at the same time that local challenges are growing more complex. The NRB will play an essential role in helping to coordinate and direct Federal technical assistance functions at a time of severe local government need.

Conclusion

Mr. Chairman, this Budget reflects the Obama Administration's recognition of the critical role the housing sector must play for the nation to out-build, out-educate and out-innovate our competitors. Equally important, it expresses the confidence of the President in the capacity of HUD to meet a high standard of performance.

Given the economic moment we are in, HUD's FY 2012 budget proposal isn't about spending more in America's communities – it's about investing smarter and more effectively.

It's about making hard choices to reduce the deficit – and putting in place much-needed reforms to hold ourselves to a high standard of performance. But most of all, it's about the results we deliver for the vulnerable people and places who depend on us most.

I believe winning the future starts at home – and with this budget of targeted investments and tough choices that I respectfully submit, we aim to prove it. Thank you.