

**WRITTEN STATEMENT OF
SECRETARY ALPHONSO JACKSON
U.S DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**



**HEARING ON
HUD'S FISCAL YEAR 2007 BUDGET
BEFORE THE
COMMITTEE ON FINANCIAL SERVICES**

U.S. HOUSE OF REPRESENTATIVES

MARCH 30, 2006

Chairman Oxley, Ranking Member Frank, distinguished Members of the Committee:

The President's proposed FY 2007 Budget truly reflects his intent to address our nation's housing, economic, and community development requirements. HUD's \$33.6 billion FY 2007 Budget seeks to build on our success and lend a compassionate hand to Americans in need, while using taxpayer money more wisely and reforming several HUD programs.

Over the past five years, HUD has successfully implemented the President's agenda to spur on economic and community development by promoting homeownership, particularly among the lowest-income Americans; increased access to affordable rental housing, while combating all forms of discriminatory housing practices; and made a commitment to focus community development dollars better on those most in need by increasing local control. At the same time, HUD has improved the operational efficiency of the Department. The President's FY 2007 Budget request will allow the Department to build upon those successes by advancing the core mission given to HUD by Congress.

How HUD Will Promote Economic and Community Development Through Homeownership:

The President's vision for an ownership society correctly focuses on the reality that the ownership of private property helps human beings prosper. There is ample evidence to prove the President's assertion that ownership promotes financial independence, the accumulation of wealth, and healthier communities. Chief among the things a person can own is his own home.

Under President Bush's leadership, this administration has achieved new records in the rate of homeownership. Today, nearly 70 percent of the nation and more than 51 percent of minorities own their homes. Despite achieving the highest homeownership rate in American history, minorities remain less likely than non-Hispanic whites to own their homes. To close this gap, President Bush challenged the nation to create 5.5 million minority homeowners by the end of the decade, and to date 2.6 million minority families have joined the ranks of homeowners. While President Bush is pleased with the progress made, there is more to be done.

The President's proposed budget will help HUD to further that mission by transforming the Federal Housing Administration (FHA) so that it can expand homeownership opportunities for low- and moderate-income families; spur Fannie Mae and Freddie Mac to lead the market to create more affordable homeownership opportunities; help more of the lowest-income Americans make a downpayment through the HOME Investment Partnerships program (HOME) and the American Dream Downpayment Initiative (ADDI); transition more Americans from HUD assisted rental housing to homeownership through the Homeownership Voucher program; and, through our rapidly-growing partnership with faith-based and community organizations, increase the level of housing counseling that has been so useful in helping families prepare for homeownership, avoid predatory lending practices, and avoid default on their homes.

FHA Product Transformation: HUD proposes to amend the National Housing Act, which was created in 1934 to create the FHA and its mortgage insurance programs. The National Housing

Act has not been updated in over 70 years. Existing statutory requirements prevent FHA from updating its products; this lack of flexibility has allowed a resurgence of high-cost loans similar to those that predominated in 1934, such as interest-only and short-term balloon loans.

The original purpose of the National Housing Act was to encourage lenders to offer loans that were less risky for consumers. If Congress will enact changes to the National Housing Act to allow FHA flexibility to offer insurance for loans of different term, cash requirement, and amortization, then FHA could make it possible for additional buyers to enter the market, thus aiding both consumers and the lending industry. This is a top legislative priority for me this year and I look forward to working with Congress to see it enacted.

Using HOME and ADDI to Help More Low-income Families Own Their Own Homes: For many low-income Americans, the single greatest obstacle to homeownership is the cash requirement for downpayment and closing costs.

The HOME Investment Partnerships program, the largest Federal block grant program of its kind, completed nearly 72,000 units of affordable housing in 2005, often in partnership with nonprofits, states, and local governments. The Administration proposes to increase the HOME program to \$1.9 billion in 2007. Each HOME dollar allocated typically attracts \$3.60 from private sector investments.

Within the HOME allocation, ADDI funds have assisted 13,845 families to become first-time homebuyers, at an average subsidy amount of \$7,431. More than 47 percent of those assisted are minority homeowners. We have requested \$100 million for FY 2007 to further enhance homeownership in America through ADDI.

Homeownership Voucher Program: I am very proud to report that during this program's first four years, over 5,000 low-income families have been moved from the Section 8 rental program rolls into the ranks of homeownership. By the end of FY 2007, the program will provide homeownership opportunities for approximately 8,000 families.

Counseling Our way to Greater Homeownership: Housing counseling is an extremely important tool to help Americans purchase and keep their homes. The FY 2007 Budget proposes \$45 million for housing counseling in order to prepare families for homeownership, help them avoid predatory lending practices, and help current homeowners avoid default. In partnership with faith-based and community organizations, HUD will assist approximately 600,000 families to become homeowners or avoid foreclosure in FY 2007. More than ever, potential homebuyers need assistance to make smart homeownership choices. Housing counseling is the most cost-effective way to educate individuals and arm them with the knowledge to make informed financial choices and avoid high risk, high cost loans, and possible default and foreclosure.

How HUD Will Increase Access to Affordable Housing:

While homeownership is one of President Bush's top priorities, the President realizes that it is not a viable option for everyone. The largest component of HUD's budget promotes decent, safe,

and affordable housing for families and individuals who may not want to become homeowners or who may not yet be ready to purchase a home.

Promoting Local Control and Flexibility—Section 8: HUD’s Housing Choice Voucher program is HUD's largest program at \$16 billion annually. The program provides approximately two million low-income families with subsidies that help them obtain decent, safe, sanitary, and affordable homes.

In response to unsustainable cost increases, Congress recently converted the previous “unit-based” allocation system to a “dollar-based” system. This made sense, but for the dollar-based system to work effectively, program requirements need to be simplified, and Public Housing Authorities (PHAs) need to be given greater flexibility.

The State and Local Housing Flexibility Act (SLHFA) introduced last year in both the House and the Senate would, among other things, give PHAs the flexibility to serve more people and better address local needs. If Congress passes SLHFA, local PHAs will be able to design their own tenant rent policies, and, in turn, they can reduce the number of erroneous payments, use their dollars more flexibly, and create incentives to work. I would like to thank Rep. Gary Miller for introducing H.R. 1999, and also thank Rep. Tom Feeney, Rep. Katherine Harris, and Rep. Rick Renzi for cosponsoring the bill.

The Administration’s plan will eliminate many of the complex forms that are currently required to comply with program rules—saving both time and money. Furthermore, the Administration’s proposal will result in benefits and rewards for a PHA’s decision to utilize good management. Enactment of this bill is one of my top priorities this year, and I stand ready to work closely with this Committee and the Congress to make that happen.

Making Improvements to Public Housing: For FY 2007, the Department will continue its efforts to improve public housing by moving toward project-based management, and mandating financial accountability. Project-based management will provide the information on individual properties, allowing managers to compare high and low cost properties and intervene as necessary.

Public Housing’s Capital Fund Financing Program: The Department continues its successful implementation of the Public Housing Capital Fund Financing Program. This program allows PHAs to borrow from banks or issue bonds using future Capital Fund grants as collateral or debt service, subject to annual appropriations. In this way, PHAs are able to leverage the Capital Funds to make improvements. The President’s FY 2007 budget request includes \$2.2 billion for the Capital Fund, which will cover the accrual needs of PHAs. The President’s budget holds the Operating Subsidy funds level at \$3.6 billion.

Implementation of Harvard Cost Study: In 1998, Congress directed HUD to undertake the Harvard Cost Study, a review of public housing costs analyzing how PHAs manage their units. The Department will continue its scheduled implementation of the congressionally mandated formula for allocating subsidies for public housing operations, and will implement the formula by FY 2007. The proposed State and Local Housing Flexibility Act would help PHAs’

administration of public housing through its flexibility and simplification of tenant rent policies. The implementation will include transitioning the management of public housing to an asset-based model similar to how private sector multifamily housing is managed. Project based accounting is scheduled to be implemented in FY 2007, and asset based management by FY 2011.

Management Accountability of Public Housing: The Department continues to place great emphasis on the physical condition of public housing properties, and the financial status and management capabilities of PHAs. The Department will continue providing technical assistance to PHAs and rating the effectiveness of PHAs through the Public Housing Assessment System (PHAS). PHAs with consistently failing scores may be subject to an administrative or judicial receivership. The Department will continue to utilize other tools such as Cooperative Endeavor Agreements with local officials, Memoranda of Agreements, and increased oversight, in order to correct long-standing deficiencies with PHAs. Over the past five years, the physical condition of public housing units has improved significantly.

America's Affordable Communities Initiative: Unnecessary, excessive or exclusionary Federal, state, and local regulations severely limit housing affordability by increasing costs as much as 35 percent. They also limit the ability of housing providers to build affordable multifamily housing and perform cost-effective housing rehabilitation. The Department believes that regulatory barrier removal must be an essential component of any national housing strategy to address the needs of low- and moderate-income families, and is committed to working with states and local communities to do so. The Department established "America's Affordable Communities Initiative: Bringing Homes Within Reach through Regulatory Reform" in FY 2003. This has encouraged efforts at the local level to review and reform regulatory barriers and other impediments to expanding housing affordability.

Through the Regulatory Barriers Clearinghouse, the Department maintains and disseminates important information to local governments and housing providers about regulatory barriers and new strategies developed by other communities. All proposed HUD rules, regulations, notices, and mortgagee letters are now carefully reviewed to ensure they enhance rather than restrict housing affordability.

Indian Housing Loan Guarantee Fund: The U.S. Government holds much of the land in Indian country in trust. Land held in trust for a tribe cannot be mortgaged, and land held in trust for an individual must receive Federal approval before a lien is placed on the property. As a result, Native Americans historically have had limited access to private mortgage capital. The Section 184 program addresses this lack of mortgage capital in Indian country by authorizing HUD to guarantee loans made by private lenders to Native Americans. The President's budget proposes \$251 million in Section 184 loan guarantees for homeownership in tribal areas, which represents a more than 100 percent increase over FY 2006.

Elderly and Persons with Disabilities: The FY 2007 Budget proposes funding for approximately 3,000 additional housing units for the elderly and persons with disabilities. While still expanding the program, the budget reflects a decrease in the rate of growth from the 2006 level, where over 7,000 new units were funded. This decrease recognizes that there are already a large number of

projects in the pipeline. Importantly, however, all expiring rental assistance contracts are being renewed, and amendment funds are available for qualifying increased costs of construction projects already in the pipeline. Funds will also be available to provide supportive services through the Service Coordinator Program and for the conversion of existing elderly housing projects through the Assisted Living Conversion Program. Funds are also available to support the existing Mainstream Voucher Program fully.

HUD has constructed almost 27,000 units specifically for persons with disabilities. Including the funding for FY 2005, HUD has 314 projects in varying stages of development in the construction pipeline.

HUD has constructed almost 400,000 units specifically for the elderly. Including the funding for FY 2005, HUD has 342 projects (about \$1.6 billion) in varying stages of development in the construction pipeline. Moreover, HUD serves an additional 675,000 elderly families under other HUD rental assistance programs such as Section 8 and Public Housing.

Housing for Ex-offenders Returning to Society: Every year, more than 600,000 inmates complete their sentences and are returned to the community. Approximately two-thirds of prisoners are re-arrested within three years of their release and nearly half of them return to prison during that same period. Individuals released from prison face significant barriers upon re-entering their communities, such as lack of job skills and housing. To confront this problem, the President proposed a four-year Prisoner Re-entry Initiative in his 2004 State of the Union address, designed to harness the experience of faith-based and community organizations to help individuals leaving prison make a successful transition to community life and long-term employment. The President's 2007 Budget provides a total of \$59 million for the Prisoner Re-entry Initiative, including \$24.8 million in the HUD request for housing needs for this population.

Youthbuild: The President's 2007 Budget again calls for the transfer of the Youthbuild program, which supports competitive grants to train disadvantaged youth, from the HUD to the Department of Labor (DOL), as recommended by the White House Task Force for Disadvantaged Youth. On July 22, 2005, the Secretaries of Labor and HUD jointly transmitted legislation to the Congress to accomplish this transfer. Shifting this program to DOL will promote greater coordination of the program with Job Corps and the other employment and training programs the Department of Labor oversees.

Housing Opportunities for Persons With AIDS (HOPWA): The HOPWA program provides formula grants to states and localities for housing assistance for low-income persons living with HIV/AIDS. The program helps maintain stable housing arrangements that improve access to health care and other needed support. The program also provides competitive grants to government agencies and nonprofit organizations. In FY 2007, the President is proposing an increase in HOPWA funding to \$300 million, which will support an estimated 28 competitive grants and will provide formula funding to an estimated 124 jurisdictions. These resources will provide housing assistance to an estimated 75,025 households. In addition, the FY 2007 Budget request includes a proposal that would allow HUD to change the formula so that the distribution of funds is more equitable because it recognizes housing cost differences across the country.

How HUD Will Reform Community Development:

A key component of HUD's strategic goals is to strengthen communities, ensuring better places to live, work, and raise a family. HUD is committed to producing a better means of measuring the performance of community development efforts, specifically within the Community Development Block Grant program. Allocating these funds more efficiently will help further reinvigorate our communities.

Laying the Groundwork for Reform of CDBG, Focusing Block Grants According to Unmet Needs: The Community Development Block Grant (CDBG) program serves low- and moderate-income families in cities and urban counties, states, and insular areas across the United States through a variety of housing, community, and economic development activities. The FY 2007 Budget proposes to reform the CDBG program to contribute more effectively to local community and economic progress. Formula changes will be proposed to direct more of the program's base funding to communities that cannot meet their own needs; bonus funds will reward communities that demonstrate the greatest progress in expanding opportunity for their residents. Other Federal programs that support local development will operate in coordination with CDBG within a new, broader framework of clear goals, crosscutting performance indicators, and common standards for awarding of bonus funding and measuring community progress. HUD programs that duplicate the purposes of CDBG—Brownfields Redevelopment, Rural Housing and Economic Development, and Section 108 Loan Guarantees—will be consolidated within CDBG as part of this reform. This is another top legislative priority for me, and I look forward to working closely with you to achieve it.

Block Grants for Native American Communities: The needs of this country's Native American population continue to be addressed through HUD's programs. The FY 2007 Budget proposes to increase the funding of the Native American Housing Block Grant program to \$626 million.

Healthy Homes and Lead Hazard Control: Today, the Department estimates that 26 million fewer homes have lead-based paint compared to 1990 when the program began. Ten years ago, there was no federal funding for local lead hazard control work in privately owned housing; today, the HUD program is active in over 250 jurisdictions across the country. The President is proposing \$115 million for this program.

Faith-Based and Community Initiative: HUD continues its successful efforts to increase participation by faith-based and community organizations (FBCOs) in HUD programs. Due to a variety of efforts, more faith-based and other community organizations are extending their reach when helping society's most vulnerable citizens. The Center continues to provide outreach and technical assistance to FBCOs, through its grant writing workshops, its Unlocking Doors Affordable Housing initiative, and other outreach efforts. I am proud to report that the Center's outreach and technical assistance efforts have helped all groups compete on a level playing field for HUD assistance, regardless of whether they are faith-based or secular. According to the White House's 2004 data collection numbers, Faith-based organizations have successfully

competed for and won 23.3% of eligible HUD funding—a higher percentage than in any other department of the Federal Government.

How HUD Will Combat Homelessness:

In addition to pursuing other agency goals, HUD remains committed to the goal of ending chronic homelessness. The chronically homeless live in shelters or on the streets for long periods, often suffering from mental illness or substance abuse problems, and absorb a disproportionately large amount of social and medical services and expenditures. The FY 2007 Budget proposal includes an increase to \$1.5 billion from \$1.3 billion in 2006 for Homeless Assistance. This increase supports the Administration's long-term goal of ending chronic homelessness by dedicating up to \$200 million for the Samaritan Initiative that bolsters communities' efforts to produce supportive housing for the chronically homeless. Through the Continuum of Care grant competition, HUD has aggressively pursued policies to move all homeless families and individuals into permanent housing. This overall funding level in 2007 will house 160,000 individuals and families through this program.

This year, in addition, I am pleased to chair the U.S. Interagency Council on Homelessness, where the federal agencies are working together toward this goal.

The Administration again proposes to consolidate HUD's three Homeless Assistance Grants programs into one simplified program that will give local communities greater control to direct these funds to their priority needs.

How HUD Will Continue to Fight Housing Discrimination:

The Bush Administration is committed to vigorous enforcement of fair housing laws, in order to ensure that equal access to housing is available to every American. Fair housing enforcement activities are pivotal in achieving the Administration's goal to increase minority homeownership by 5.5 million by 2010. For 2007, the President's budget proposes approximately \$45 million to support Fair Housing and Equal Opportunity activities to help ensure that Americans have equal access to housing of their choice. These activities include education and outreach, as well as administrative and enforcement efforts by state and local agencies and nonprofit fair housing organizations. Additionally, the requested amount would support the Department's ongoing efforts to address fair housing concerns in areas affected by Hurricanes Katrina and Rita. The efforts would include bilingual public service announcements, printed advertisements, and training events. The Department would provide technical assistance to builders, architects, and housing providers on accessibility requirements through Accessibility FIRST to ensure that newly constructed housing units are accessible to persons with disabilities.

How HUD Will Increase its Operational Efficiency:

HUD made significant strides in financial management this year. We are particularly proud of our achievements in:

Financial Performance: Successfully accelerating the close of our operational books and audit of our financial records within 45 days of the end of the FY, HUD earned an unqualified audit opinion on its 2004 and 2005 financial statements, giving the Department an unqualified or clean audit opinion on its financial statements for the past six consecutive FYs. The financial auditors also determined that HUD made significant progress in strengthening internal controls. The auditor downgraded two long-standing material weaknesses—one dating from 1990.

Continuing progress on the implementation of the final phases of the FHA Subsidiary Ledger Project contributed to HUD's ability to accelerate the preparation of auditable financial statements, and eliminate longstanding material internal control and financial systems weaknesses. HUD will complete the FHA Subsidiary Ledger Project in FY 2007 and continue to pursue its goal for modernizing the Department's core financial system by FY 2008, through the HUD Integrated Financial Management Improvement Project.

Electronic Government: HUD continues its E-Government transformation in order to meet public expectations and government performance mandates by: Increasing access to information and services using the Internet; eliminating duplicative and redundant systems by leveraging and integrating with existing Federal-wide services; acquiring or developing systems within expected costs and schedules that can be shared and used to simplify business processes; ensuring the protection of personal data; and providing increased security to guard against intrusion and improve reliability. HUD has executed plans to improve its information technology capital planning, project management, and security environment, along with modernizing HUD's IT systems infrastructure. HUD's future focus will be on modernizing its core financial systems applications and business systems applications in its largest program areas—rental housing assistance, single-family housing mortgage insurance, and discretionary grants, as well as establishing integration from our procurement data system to the Federal Procurement Data System (FPDS). In 2005, HUD successfully implemented two new systems: (1) a Human Capital support system and (2) a cross-match system with HHS to assist PHAs in verifying tenant incomes to assure eligibility for the program and accuracy in computing tenant rent contributions.

Eliminating Improper Payments: HUD has reduced its gross annual improper rental assistance payments by 61 percent since 2000. In 2003, improper payments were reduced to \$1.6 billion from the 2000 level of \$3.2 billion. In 2004, improper payments were further reduced to \$1.25 billion. In October 2005, HUD provided local PHAs with an electronic tool to verify tenants' income with the Department of Health and Human Services' National Directory of New Hires. This new tool will further improve the accuracy of eligibility determination for the rental assistance program and the proper calculation of the tenant's portion of the rent and the amount of Federal subsidy to be allocated. While the estimated improper rental housing assistance payments in FY 2004 were substantially reduced from prior year estimates, they still represented 5.6 percent of total program payments. Through continuous corrective actions, HUD's goal is to reduce that improper payment rate to 3 percent of total payments during FY 2007.

In Conclusion, Mr. Chairman:

The President's proposed FY 2007 Budget makes good progress toward successfully realigning Federal government priorities according to our nation's current needs. The HUD portion of that budget will help promote economic and community development through increased opportunities for homeownership and affordable rental housing, free from discrimination; it will also lay the groundwork for reform by focusing community development funding more carefully toward those most in need; and it will enable HUD to continue along the path to greater Departmental efficiency and effectiveness.

I thank you for the opportunity to articulate the President's FY 2007 agenda for HUD. This is a good budget, Mr. Chairman, and I respectfully urge the Congress to adopt it. I am now available to answer any questions that you or other Members may have.