

STATEMENT OF
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U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT



BEFORE THE
UNITED STATES HOUSE
COMMITTEE ON FINANCIAL SERVICES

MAY 20, 2004

OVERVIEW

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

Thank you for the invitation to join you this morning. I am honored to outline the Fiscal Year (FY) 2005 Budget proposed by President Bush for the U.S. Department of Housing and Urban Development (HUD).

The programs funded within the \$31.3 billion HUD budget will create new opportunities for those who seek affordable housing and the American Dream of homeownership, while generating stability and prosperity for our communities. The key priorities it addresses are central to the President's plan to help make America a more secure, more prosperous, and more hopeful country.

Housing, of course, is central to our national prosperity and remains the lynchpin of our economy. The housing market generated robust activity throughout the 2001 recession, and today, housing continues to fuel the ongoing economic recovery. Bolstered by historically low interest rates, home sales and new housing construction have repeatedly outperformed expectations. Homeownership last year reached an all-time high of 68.3 percent, and fourth quarter 2003 statistics revealed that, for the first time, a majority of minority households own a home of their own.

The Administration's FY 2005 budget request for HUD will empower the Department to build on these successes, as we seek to increase homeownership through the American Dream Downpayment Initiative and two new mortgage products, promote decent affordable housing through the newly proposed Flexible Voucher Program, end chronic homelessness, encourage the participation of faith-based and community organizations in HUD grant programs, and embrace the highest standards of ethics, management, and accountability.

INCREASING HOMEOWNERSHIP OPPORTUNITIES

Americans place a high value on homeownership because of its benefits to families, communities, and the nation as a whole are so profound.

Homeownership creates community stakeholders who tend to be active in charities, churches, and neighborhood activities. Homeownership inspires civic responsibility, and owners are more likely to vote and get involved with local issues. Homeownership offers children a stable living environment that influences their personal development in many positive, measurable ways – at home and in school.

Homeownership's potential to create wealth is impressive, too. For the vast majority of families, the purchase of a home represents the path to prosperity. A home is the largest purchase most Americans will ever make – a tangible asset that builds equity, credit health, borrowing power, and overall wealth.

Due in part to a robust housing economy and Bush Administration budget initiatives focused on promoting homeownership, the homeownership rate was higher in 2003 than at any time in this nation's history and, as I said earlier, a majority of minority households are homeowners for the first time. That fact, however, masks a deep "homeownership gap" between non-Hispanic whites and minorities; while the homeownership rate for non-Hispanic whites is nearly 76 percent; it is slightly above 50 percent for African-Americans and Hispanics, and 55 percent for Native Americans..

The Administration is focused on giving more Americans the opportunity to own their own homes, including minority families. In June 2002, President Bush announced an aggressive homeownership agenda to remove the barriers that block American families from achieving homeownership, in the hope of creating at least 5.5 million new minority homeowners by the end of this decade. The Administration's homeownership agenda is dismantling the financial barriers to homeownership by providing down payment assistance, increasing the supply of affordable homes, increasing support for homeownership education programs, and simplifying the homebuying process. More than 1.5 million new minority homeowners have been created in the United States since the initiative was announced.

Through "America's Homeownership Challenge," the President called on the real estate and mortgage finance industries to take concrete steps to tear down the barriers to homeownership. In response, HUD created the Blueprint for the American Dream Partnership, an unprecedented public/private initiative that harnesses the resources of the federal government with those of the housing industry to accomplish the President's goal.

Additionally, we propose several new or expanded initiatives in FY 2005 to continue the increase in overall homeownership, which will help improve minority homeownership rates.

As a first step, the Administration proposes to fund the American Dream Downpayment Initiative at \$200 million in FY 2005. President Bush signed the American Dream Downpayment Act into law on December 16, 2003, creating homeownership opportunities for thousands of Americans who had been unable to cross the most significant obstacle to homeownership: high downpayments and closing costs. The Initiative will help approximately 40,000 low-income families with the downpayment on their first home.

The Administration is proposing a new mortgage insurance product to help first-time homebuyers purchase a home by allowing zero downpayment loans. Currently, the Federal Housing Administration (FHA) requires a minimum downpayment of three percent. To cover the higher risk involved, premiums will be increased in the short term for these borrowers. This program will be implemented at no cost to the government or the American taxpayer. This new Zero Downpayment program is expected to serve 150,000 families per year, generating about \$19 billion in endorsements.

The Administration is also proposing a new sub-prime loan product called Payment Incentives to offer FHA insurance to families that, due to poor credit, would be served either by the private market at a higher cost or not at all. Borrowers would be offered FHA loan insurance under this new initiative that will allow them to maintain their home or to purchase a new home. The new Mutual Mortgage Insurance (MMI) mortgage loan program is expected to serve 60,000 families per year, and generate an additional \$7.9 billion in endorsements.

Helping families learn about the loan products and services available to them and how to identify and avoid predatory lending practices is critical to increasing homeownership. Counseling has proven to be an extremely important element in both the purchase of a home and in helping homeowners keep their homes in times of financial stress. The FY 2005 Budget will provide a record \$45 million to support 550,000 families with home purchase and homeownership counseling and about

250,000 families with rental counseling. Counseling would be required for all families buying homes through the Zero Downpayment insurance program.

A new proposal for FY 2005 – the Flexible Voucher Program – will provide new flexibility to Public Housing Authorities (PHAs) by allowing them to offer downpayment assistance in addition to monthly mortgage subsidies to families. The Flexible Voucher Program proposal calls for funding the Housing Choice program as a flexible voucher grant, giving a set sum of money to public housing authorities (PHA's), rather than promising to fund a certain number of units. Using a dollar-based approach rather than a unit-based approach, will give incentives to PHA's to streamline administrative costs and provide more housing opportunities for the money they receive. Additionally, PHA's will be encouraged to emphasize vouchers as a bridge to self-sufficiency, not an entitlement or an ongoing handout for housing needs.

The Self-Help Homeownership Opportunity Program (SHOP) provides grants to national and regional non-profit organizations to subsidize the costs of land acquisition and infrastructure improvements. Homebuyers must contribute significant amounts of sweat equity or volunteer labor to the construction or rehabilitation of the property. The FY 2005 budget request of \$65 million more than doubles the funding received in 2004, reflecting President Bush's continuing commitment to self-help housing organizations such as Habitat for Humanity. These funds will help produce approximately 5,200 new homes nationwide for very low-income families.

To promote the production of affordable single-family homes in areas where such housing is scarce – and to help revitalize distressed communities – a tax credit of up to 50 percent of the cost of constructing a new home or rehabilitating an existing home would be provided. Eligibility for this new tax credit would be limited to homes that are affordable to lower-income households (purchasers whose incomes are below 80 percent of local median income).

The HOME Investment Partnerships program plays a key role in addressing the shortage of affordable housing in America. In FY 2005, a total of \$2.1 billion – which includes \$200 million for the American Dream Downpayment Initiative – is being proposed for participating jurisdictions (states and local governments) to expand the nation's supply of affordable housing. Participating jurisdictions have substantial local discretion to determine how to spend these funds. In addition to homeownership assistance, HOME funds can be used to help renters, new homebuyers, or existing homeowners through rehabilitation of substandard housing, acquisition of standard housing, new construction, or tenant-based rental assistance. To date, HOME grantees have committed funds to provide homebuyer assistance to more than 294,000 low-income households. Based on historical trends, 36 percent of HOME funds will be used for new construction, 47 percent for rehabilitation, 14 percent for acquisition, and 3 percent for rental assistance.

Through its mortgage-backed securities program, the Government National Mortgage Association – or Ginnie Mae – helps to ensure that mortgage funds are available for low- and moderate-income families served by FHA and other government programs such as those under the Department of Veterans Affairs and the Rural Housing Service of the Department of Agriculture. The FY 2005 budget requests \$200 billion in new loan guarantee limitations.

During FY 2003, Ginnie Mae marked its 35th anniversary and guaranteed a record \$215.8 billion in mortgage-backed securities. Since its inception in 1968, Ginnie Mae has guaranteed more than \$2 trillion in mortgage-backed securities and helped

more than 27 million families gain access to affordable housing or lower mortgage costs. HUD's role in the secondary mortgage market provides an important public benefit to Americans seeking to fulfill their dream of homeownership.

The Administration has proposed broad reform of the supervisory system for Government-sponsored enterprises (GSEs) in the housing market. As part of this reform, the Administration has proposed that HUD have the ability to set an enforceable goal encouraging the purchase of first-time homebuyer mortgages. While part of their charter, the GSEs significantly lag the market for all first-time homebuyers regardless of race or ethnicity. This portion of the reform is designed to ensure that Fannie Mae and Freddie Mac lead, not lag behind, the market.

In addition, the FY 2005 Budget would assess GSEs an additional \$6.25 million for the expected cost of the HUD Secretary's responsibilities under this Act and amendments as outlined in recent Administration proposals. These responsibilities include establishing and enforcing affordable housing goals for GSEs, ensuring GSE compliance with Fair Housing laws, and providing consultation to the safety and soundness regulator on the GSEs' new activities.

The FY 2005 Budget supports five HUD programs that help to promote homeownership in Native American and Hawaiian communities.

Native American Housing Block Grants (NAHBG) provide \$647 million in funding to federally-recognized tribes and to tribally-designated housing entities for a wide variety of affordable housing activities. Grants are awarded on a formula basis. The NAHBG program allows funds to be used to develop new housing units to meet critical shortages in housing. Other uses include housing assistance to modernize and maintain existing units; housing services, including direct tenant rental subsidy; crime prevention; administration of the units; and certain model activities.

The Title VI Federal Guarantees for Tribal Housing program provides guaranteed loans to recipients of the Native American Housing Block Grant who need additional funds to engage in affordable housing activities. The Department's budget proposes to continue funding this program at last year's level, which will provide \$17.9 million in loan guarantee authority.

The Indian Housing Loan Guarantee (Section 184) program helps tribal members and their families to access private mortgage financing for the purchase, construction, or rehabilitation of single-family homes. The program guarantees payments to lenders in the event of default. In FY 2005, \$1 million is requested in credit subsidy for 100 percent federal guarantees of approximately \$29 million in private loans.

Under the Native Hawaiian Home Loan Guarantee Fund (Section 184A) program, loan guarantees will be used primarily to secure private financing to purchase, construct, or rehabilitate single-family homes on Hawaiian Home Lands. This makes possible the financing of construction loans and home mortgages by private financial institutions that would otherwise not be possible due to the unique status of Hawaiian Home Lands. The FY 2005 Budget will provide \$1 million in credit subsidy to secure approximately \$37.4 million in private loans.

Modeled after the NAHBG, the Native Hawaiian Housing Block Grant program recognizes the documented housing needs of native Hawaiians who are eligible to reside on, or who already live on, Hawaiian Home Lands. Native Hawaiians experience the worst housing conditions in the state and constitute nearly 30 percent of the homeless

population. The FY 2005 Budget will provide \$9.5 million. Grant funds will be awarded to the Department of Hawaiian Home Lands and may be used to support the acquisition, new construction, reconstruction, and rehabilitation of affordable housing. Activities include real property acquisition, demolition, financing, and development of utilities and utility services, as well as administration and planning, housing management services, crime prevention, and safety activities.

Promote Decent Affordable Housing

The FY 2005 Budget promotes the production and accessibility of affordable housing for families and individuals who rent. This is achieved, in part, by providing states and localities new flexibility to respond to local needs.

HUD has three major rental assistance programs that collectively provide rental subsidies to approximately 4.5 million households nationwide. The major vehicle for providing rental subsidies is the Section 8 program, which is authorized in Section 8 of the U.S. Housing Act of 1937. Under this program, HUD provides subsidies to individuals (tenant-based) who seek rental housing from qualified and approved owners, and also provides subsidies directly to private property owners who set aside some or all of their units for low-income families (project-based). Currently, HUD subsidizes operation, maintenance, and capital improvement of 1.2 million public housing units. In total, these programs will provide approximately \$23.2 billion in new funds each year to support rental costs for low-income individuals and families; total rental assistance accounts for approximately 74 percent of the total budget for the Department in FY 2005.

The FY 2005 Budget continues to fund Section 8 tenant-based and project-based rental assistance through the Housing Certificate Fund. In addition, public housing is subsidized through the Public Housing Operating Fund and the Public Housing Capital Fund.

HUD also helps to provide affordable rental housing through the HOME program, the Native American Housing Block Grant, FHA mortgage insurance, and the Community Development Block Grant (CDBG) program. In addition, HUD meets the specialized housing needs of the elderly and individuals with disabilities through grants for the development and operation of supportive housing projects for these target populations.

The Budget includes a new Flexible Voucher Program (FVP) that would replace the Housing Choice Voucher Program and improve the delivery of rental and homeownership subsidies for low-income families. The current system fails to support families making the transition from public assistance to self-reliance and work, and in doing so reduces the number of families that could be helped for a given amount of money. Under the reform, the Voucher program would be a means for families to transition to a better life, and more of them will be helped. The ease of administration for HUD and PHAs is the means to that policy end, and a bonus for doing the right thing for families.

Some of the key features of the new FVP include greater PHA discretion in meeting local housing needs and serving more families, steady and predictable funding levels.

The FVP will simplify program requirements and avoid the "one size fits all" program design. The FVP provides local and state PHAs with greater administrative flexibility to meet the overall program objective of providing temporary and transitional

housing assistance for low-income families. As is current practice, the FVP will be administered by PHAs.

It is anticipated that approximately 896,000 project-based units under rental assistance will require renewal in FY 2005, an increase of about 25,000 units from the current fiscal year. This continues the upward trend stemming from first-time expirations in addition to contracts already under the annual renewal cycle.

Public Housing is the other major form of assistance that HUD provides to the nation's low-income population. In FY 2005, HUD anticipates that there will be approximately 1.2 million public housing units occupied by tenants. These units are under the direct management of approximately 3,100 PHAs. Tenants pay 30 percent of their income for rent and utilities, and HUD subsidies cover much of the remaining cost.

HUD is committed to ensuring that the existing public housing stock is either maintained in good condition or is demolished. Maintenance is achieved through the subsidy to PHAs for both operating expenses and capital needs. Through its regulatory authority, HUD will ensure that housing that is no longer viable will be removed from the inventory. It will encourage voluntary removal of decaying units when it makes economic sense to do so. Many of these decisions will be made at the local level, and HUD will work with PHAs to allow greater local decision-making.

The formula distribution of Public Housing Operating Funds takes into account the size, location, age of public housing stock, occupancy, and other factors intended to reflect the costs of operating a well-managed public housing development. In FY 2005, the Department's budget provides approximately \$3.6 billion in funding for the Public Housing Operating Fund.

This Public Housing Capital Fund program provides formula grants to PHAs for major repairs and modernization of units. The FY 2005 budget will provide \$2.7 billion in this account. This amount is sufficient to meet new capital improvement needs in FY 2005.

Of the funds made available, up to \$50 million may be maintained in the Capital Fund for natural disasters and emergencies. Up to \$30 million can be used for demolition grants – to accelerate the demolition of thousands of public housing units that have been approved for demolition but remain standing. Also in FY 2005, up to \$55 million will be available for the Resident Opportunity and Self-Sufficiency (ROSS) program, which provides supportive services and assists residents in becoming economically self-sufficient.

HUD will introduce a demonstration program in 2005 designed to improve public housing. The Freedom to House Initiative will maximize the ability of local PHAs to make decisions affecting their tenants, while simultaneously serving essentially the same numbers of low-income families. It will grant to participating demonstration PHAs the ability to combine the use of capital and operating funds, to set locally determined rent structures, and to free themselves from many of the administratively burdensome requirements of federal reporting. This demonstration will also allow HUD and PHAs to focus on an asset-based management practice.

HUD's Moving to Work Program has shown that residents and PHAs have benefited from increased local flexibility. These PHAs are convinced that their reforms have encouraged residents to seek work, work more hours, and pursue opportunities to

increase their incomes. Freedom to House will continue this experiment in an environment that will allow for better measurement and comparative evaluation.

Up to 50 PHAs will be identified to participate in the demonstration, while up to 50 others will serve as a control group following current public housing laws and regulations. Annual assessment of the PHAs will be based on parameters of financial health and physical safety and soundness. Performance assessment results and other pertinent data will be provided on an annual basis and will provide policymakers with the ability to review current practices against increased PHA flexibility in order to guide future policy decisions.

HUD will also continue to promote affordable rental housing through FHA's multifamily mortgage insurance programs. In FY 2005, FHA will reduce the annual mortgage insurance premiums on its largest apartment new construction program, Section 221(d)(4), for the third year in a row - from 50 basis points in FY 2004 to 45 basis points in FY 2005. This is the lowest premium that FHA has ever charged for multifamily insurance, and we are able to do so because the program is being run on a financially sound and prudent basis. With this reduction, the Department estimates that it will insure \$3.1 billion in apartment development loans through this program in FY 2005, producing more than 41,000 additional new rental units. Most of these units will be affordable to moderate-income families, and most of them will be located in underserved areas.

When combined with other multifamily mortgage programs, including those serving non-profit developers, health care facilities, and refinancing mortgagors, FHA anticipates providing support for over 250,000 new units.

In addition to the extensive use of HOME funds for homeownership, the HOME program has invested heavily in the creation of new affordable rental housing. Since its inception, the HOME program has supported the building, rehabilitation, and purchase of more than 334,000 rental units. Program funds have also provided direct rental assistance to more than 100,000 households.

Native American Housing Block Grants provide a flexible source of funding to federally recognized tribes or tribally-designated housing entities and is used for a wide variety of affordable housing activities. Authorized uses include both rental housing and homeownership. The block grant is funded at \$647 million in FY 2005.

The Native Hawaiian Housing Block Grant is modeled on the NAHBG, and provides funding to the Department of Hawaiian Home Lands for a wide variety of eligible affordable housing activities, including the construction, rehabilitation, and acquisition of rental units for native Hawaiians who are eligible to reside on, or who already live on, Hawaiian Home Lands.

Several other HUD programs contribute to rental assistance, although not as a primary function. For example, the flexible Community Development Block Grant can be used to support rental-housing activities. The CDBG program is celebrating its 30th year in 2004, having provided over \$108 billion in much-needed resources to states, rural communities, inner cities, suburban communities, as well as counties to benefit low- and moderate-income persons.

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. Therefore, HUD is committed to working with states and local communities to reduce regulatory barriers to the development of affordable housing.

In FY 2003, the Department established "America's Affordable Communities Initiative: Bringing Homes Within Reach through Regulatory Reform." This major new initiative is a Department-wide effort charged not only with developing new approaches and incentives that can encourage efforts at the local level, but also reviewing and reforming HUD's own regulations that may be barriers to expanded housing affordability.

To support this effort, HUD will conduct research and dissemination efforts to learn more about the nature and extent of regulatory obstacles to affordable housing. Current research underway includes developing a methodology for "housing impact" analyses. This new tool will assist HUD and other federal agencies, as well as state and local governments, to measure the impact of any proposed new regulation on housing affordability. Through such an expanded research and dissemination effort, HUD will develop the tools and approaches needed by state and local governments to address the many barriers that restrict the development of affordable housing.

Strengthening Communities

HUD is committed to preserving America's cities as vibrant hubs of commerce and making communities better places to live, work, and raise a family. The FY 2005 budget provides states and localities with tools they can put to work improving economic health and promoting community development. Perhaps the greatest strength of HUD's economic development programs is the emphasis they place on helping communities address development priorities through local decision making.

The flagship of HUD's community and economic development programs is the Community Development Block Grant (CDBG) program. In FY 2005, total funding for the CDBG account will be \$4.6 billion. CDBG funds go to 1,160 grantees in 944 cities, 165 counties, and 50 states, plus Puerto Rico.

CDBG's popularity is based on the fact that funds may be used for a broad range of housing revitalization and community and economic development activities, thereby increasing state and local capacity for economic revitalization, job creation and retention, neighborhood revitalization, public services, community development, renewal of distressed communities, and leveraging of non-federal resources.

Of the \$4.6 billion in FY 2005, \$4.3 billion will be distributed to entitlement communities, states, and insular areas, and \$71.6 million will be distributed by a competition to recognized tribes for the same uses. The remaining \$215 million is for specific purposes and programs at the local level and is distributed generally on a competitive grant basis. Principal among these initiatives in FY 2005 are the Development Challenge Pilot Program, the National Community Development Initiative, the University Partnership Grant program, and Youthbuild.

The FY 2005 Budget proposes an interagency effort to test ways to better coordinate, target, and leverage existing federal community and economic development programs. Under the \$10 million Development Challenge Pilot Program, competitive grants will be awarded to a limited number of communities to develop and implement clear and measurable community development goals. The results of this initiative are intended to provide valuable information on how performance measurement can be made an integral part of CDBG and other community and economic development programs.

HUD participates in the privately organized and initiated NCDI. The FY 2005 budget will provide \$25 million for the NCDI, in which HUD has funded three phases of work since 1994. A fourth phase will emphasize the capacity building of community based development organizations, including community development corporations, in the economic arena and related community revitalization activities through the work of intermediaries, including the Local Initiatives Support Corporation and the Enterprise Foundation. In addition, the budget includes funding for capacity building activities for Habitat for Humanity (\$4.5 million) and Youthbuild USA (\$2 million).

The FY 2005 Budget provides \$33.8 million through the University Partnership Grant program to assist colleges and universities, including minority institutions, to engage in a wide range of community development activities. Funds are also provided to support graduate programs that attract minority and economically disadvantaged students to participate in housing and community development fields of study.

The FY 2005 Budget requests \$64.6 million for the Youthbuild program. Youthbuild is targeted to high school dropouts aged 16 to 24, and provides these disadvantaged young adults with education and employment skills through constructing and rehabilitating housing for low-income and homeless people. The program also provides opportunities for placement in apprenticeship programs or in jobs. The FY 2005 request will serve more than 3,728 young adults.

The Administration continues to work to meet the challenge of homelessness that confronts many American cities. The President has made an unprecedented, Administration-wide commitment to eliminating chronic homelessness. The Administration is also fundamentally changing the way the nation manages the issue of homelessness by focusing more resources on providing permanent housing and supportive services for the homeless population, instead of simply providing more shelter beds.

HUD is an active member of the U.S. Interagency Council on Homelessness in its work to coordinate the efforts of 18 federal agencies that address the needs of homeless persons. HUD and its partners are focused on improving the delivery of homeless services, which includes working to cut government red tape and simplifying the funding process.

The FY 2005 Budget continues to address the housing needs of homeless individuals and families by funding targeted homeless programs at \$1.5 billion. Three initiatives are being proposed that will provide new direction and streamline the delivery of funds to the local and non-profit organizations that serve the homeless population.

The FY 2005 Budget includes the Samaritan Initiative to address the President's goal of ending chronic homelessness by 2012 and includes \$50 million for HUD and \$10 million for HHS and VA. Persons who experience chronic homelessness are a sub-population of approximately 150,000 who often have an addiction or suffer from a disabling physical or mental condition, and are homeless for extended periods of time or experience multiple episodes of homelessness. These individuals, for the most part, get help for a short time but soon fall back to the streets and shelters. Thus, they continually remain in the homeless system.

The Samaritan Initiative will fund promising local collaborative strategies to move chronically homeless individuals from the streets to safe permanent housing with supportive services. It will provide new housing options as well as aggressive outreach

and services to homeless people living on the streets. HUD will continue other, current interagency efforts to end chronic homelessness including the joint initiative with the Department of Labor to link housing and employment services in local communities through One-Stop Career Centers.

HUD proposes to consolidate its three competitive homeless assistance programs into a single program. The consolidation will provide more consistent funding from year to year, expand eligible activities – including prevention – across programs, eliminate multiple match requirements, and simplify the competition and award process.

The Administration again proposes legislation that would transfer the Emergency Food and Shelter Program (EFSP) from the Federal Emergency Management Agency to HUD. The transfer of this \$153 million program in its current form would allow for the consolidation of emergency shelter assistance – EFSP and the Emergency Shelter Grants program – under one agency. EFSP funds are distributed through a National Board (a public-private partnership) which in turn allocates funds to similar local Boards in eligible jurisdictions. Eligibility for funding is based on population, poverty, and unemployment data. The Board will be chaired by the Secretary of HUD and will include the nonprofit agencies that currently constitute the National Board.

In addition to funding homeless supportive services, the FY 2005 Budget funds services benefiting adults and children from low-income families, the elderly, those with physical and mental disabilities, victims of predatory lending practices, and families living in housing contaminated by lead-based paint hazards.

The FY 2005 Budget will provide \$773 million in funding for the Supportive Housing for the Elderly (Section 202) program. In the Section 202 program, funding for housing for the elderly is awarded competitively to non-profit organizations that construct new facilities. The facilities are also provided with rental assistance subsidies, enabling them to accept very low-income residents. Many residents live in the facilities for years; over time, these people often become frail and less able to live without some additional services. Therefore, the program is providing up to \$30 million of the grants to fund the conversion of all or part of existing properties to assisted-living facilities, enabling these elderly residents to remain in their units. In addition, up to \$53 million of the grant funds will be targeted to funding the service coordinators who help elderly residents obtain supportive services from the community.

The FY 2005 Budget proposes to fund capital advances of \$249 million for Supportive Housing for Persons with Disabilities (Section 811). The Section 811 program will also continue to set aside funds to enable persons with disabilities to live in mainstream environments. Up to 25 percent of the grant funds can be used to provide Section 8-type vouchers that offer an alternative to congregate housing developments. In FY 2005, up to \$63 million of the grant funds will be used to renew "mainstream" Section 8-type vouchers so that individuals can continue to use their vouchers to obtain rental-housing vouchers in the mainstream rental market.

In 2005, HUD will provide \$295 million in new grant funds for housing assistance and related supportive services for low-income persons with HIV/AIDS and their families through the Housing Opportunities for Persons with AIDS (HOPWA) program. Although most grants are allocated by formula, based on the number of cases and highest incidence of AIDS, a small portion is provided through competition for projects of national significance. The program will renew all existing grants in FY 2005 and provide new formula grants for an expected two additional jurisdictions. Since 1999, the number of formula grantees has risen from 97 to an expected 119 in FY 2005.

A compassionate nation must ensure that those Americans served by HUD – many of whom are struggling families, or individuals facing a trying time in their lives – live in a healthy and secure environment and have access to tools and opportunities that will help them move toward self-sufficiency. HUD's basic programs contribute to this goal by providing individuals and families with the housing and services that allow them to focus on recovery, job-related skill development, and obtaining work or increasing income.

The Voluntary Graduation Incentive Bonus recognizes PHAs that experience higher rates of families that transition out of the public housing program. This will be the first initiative in over twenty years to affirm that public housing's primary mission is to help low-income families gain access to housing for a temporary period while on the road toward economic freedom. Public housing should not be managed as a permanent housing solution for the poor. HUD will allocate \$15 million in operating fund monies to those PHAs that exceed a baseline transition rate.

The Department will provide \$55 million in funds to support the Resident Opportunity and Self-Sufficiency (ROSS) program for residents of Public and Indian Housing. The main purpose of the funds is to provide a link between residents and services that can help them achieve self-sufficiency.

HUD's Lead-Based Paint program is the central element of the President's effort to eradicate childhood lead-based paint poisoning. In FY 2005, funding for the lead-based paint program will increase to \$139 million from the \$136 million requested by the President for FY 2004. Grant funds are targeted to low-income, privately owned homes most likely to expose children to lead-based paint hazards.

The program conducts public education and compliance assistance to prevent childhood lead poisoning. New estimates from the Centers for Disease Control and Prevention (CDC) show that the program has helped to reduce the number of children at risk by 50 percent, but that nearly half a million children still have too much lead in their bodies.

Included in the request for this program is \$10 million for the Healthy Homes Initiative, which is targeted funding to prevent other housing-related childhood diseases and injuries such as asthma and carbon monoxide poisoning. The President's Taskforce Report notes that asthma alone costs the nation over \$6 billion each year. Working with other agencies such as the CDC and the Environmental Protection Agency, HUD is bringing comprehensive expertise to the table in housing rehabilitation and construction, architecture, urban planning, public health, environmental science, and engineering to address a variety of childhood problems that are associated with housing.

Ensuring Equal Opportunity in Housing

As the primary federal agency responsible for the administration of fair housing laws, HUD is committed to protecting the housing rights of all Americans, regardless of race, color, national origin, religion, sex, age, familial status, or disability. This commitment is reflected in HUD's budget request for FY 2005.

The goal of HUD's fair housing programs is to ensure that all families and individuals have access to a suitable living environment free from unlawful discrimination. HUD contributes to fair housing enforcement and education by directly enforcing the federal fair housing laws and by funding state and local fair housing efforts

through two programs: the Fair Housing Assistance Program (FHAP) and the Fair Housing Initiatives Program (FHIP).

The FY 2005 Budget will provide \$27 million through FHAP for state and local jurisdictions that administer laws substantially equivalent to the Federal Fair Housing Act. The Department supports FHAP agencies by providing funds for capacity building, complaint processing, administration, training, and the enhancement of data and information systems. FHAP grants are awarded annually on a noncompetitive basis. Activities funded by this program play a pivotal role in increasing the overall national homeownership rate, which we believe will add 5.5 million new minority homeowners by the end of the decade.

Targeted Education and Enforcement Follow Up on Housing Discrimination Studies is one of the activities supported through FHAP. This education campaign combats discriminatory activities, including those against African-Americans, Hispanics, Asians, Pacific Islanders, American Indians, Alaskan Natives, native Hawaiians, and persons with disabilities.

FHAP also supports the Fair Housing Training Academy, which will serve all FHAP agencies and provide continuing professional fair housing training and certification for current and future FHAP staff. The curriculum will cover training needed to ensure quality and timely investigations of fair housing complaints and includes case processing, conciliation skills, compliance monitoring, and testing.

The Department expects increases in discrimination cases processed by state and local fair housing agencies as a result of increased education and outreach activities. The FY 2005 FHAP budget request supports this increase.

The FY 2005 Budget will provide \$20.7 million in grant funds for non-profit FHIP agencies nationwide to directly target discrimination through education, outreach, and enforcement. The FHIP program for FY 2005 is structured to respond to the finding of the three-year National Discrimination Study and related studies, which reflect the need to expand education and outreach efforts nationally as a result of continuing high levels of discrimination.

Promoting the fair housing rights of persons with disabilities is a Departmental priority and will remain an important initiative within FHIP. Fair Housing Act accessibility design and construction training and technical guidance are an integral part of the Fair Housing Accessibility First Project. Bringing about industry-wide acceptance of accessibility as the way to design housing will depend, to a significant degree, on easy access to consistently accurate and helpful information and guidance on compliance. An extension of the current program for at least an additional one to three years is necessary to achieve this goal.

This project provides training to architects, builders, and others on how to design and construct multifamily buildings in compliance with the accessibility requirements of the Fair Housing Act. Therefore, the Department is requesting \$1 million for the first year of a new three-year contract to continue the Fair Housing Accessibility First education and outreach training. Fair Housing Accessibility First will maintain a hotline and a website to provide personal assistance to housing professionals on design and construction problems.

Promoting the Participation of Faith-Based and Community Organizations

HUD's Center for Faith-Based and Community Initiatives ("the Center") was established by Executive Order 13198 on January 29, 2001. Its purpose is to coordinate the Department's efforts to eliminate regulatory, contracting, and other obstacles to the participation of faith-based and other community organizations in social service programs.

To help returning prisoners rebuild their lives, find work, and avoid crime, the FY 2005 President's Budget proposes a four-year, \$300 million Prisoner Re-Entry Initiative to be carried out through the collaborative efforts of HUD and the Departments of Labor and Justice. Harnessing the resources and experience of faith-based and community organizations, the Prisoner Re-Entry Initiative will help ex-offenders find and keep jobs, secure transitional housing, and receive mentoring. HUD's FY 2005 Budget includes \$25 million for this initiative.

The 2005 Budget also requests \$5 million for a faith-based pilot for a multi-city program aimed at increasing the participation of faith-based and community based organizations in the cities' community development strategies.

The Center will continue to play a key role in FY 2005 in facilitating intra-departmental and interagency cooperation regarding the needs of faith-based and community organizations. It will focus on research; law and policy; development of an interagency resource center to service faith-based and community partners; and expanding outreach, training, and coalition building. Additionally, the Center will participate in the furtherance of HUD's overall strategic goals and objectives – particularly as they relate to partnerships with faith-based and community organizations.

On December 12, 2002, the President issued Executive Order 13279, "Equal Protection of the Laws for Faith-Based and Community Organizations." The intent of the Executive Order is to ensure that faith-based and community organizations are not unjustly discriminated against by regulations and bureaucratic practices and policies.

In FY 2005, in compliance with Executive Orders 13198 and 13279, the Center will focus its work on the following key responsibilities: ensuring that the new regulations on faith-based organizations are implemented and reflected in all HUD policies; outreach to faith-based and community groups through technical assistance, the Center's website, interagency summits, and other efforts; establishing innovative pilot and demonstration programs to increase the participation of faith-based and other community organizations in Departmental initiatives; and educating government personnel on the faith-based and community initiative.

Progress on these efforts will be tracked as part of the President's Management Agenda (PMA).

Embracing High Standards of Ethics, Management, and Accountability

HUD is committed to improving performance in its critically needed housing and community development programs, and producing these improvements in a manner that reflects the highest standards of ethics, management, and accountability.

The PMA is designed to improve the overall efficiency and effectiveness of the federal government and to address significant management deficiencies at individual agencies. HUD fully embraces this sound management agenda and is on-target with the

necessary plans and actions to meet the challenging goals set by the President. To sustain the focus needed to achieve these goals, they have been engrained in HUD's strategic and annual performance and operating plans.

The PMA includes five government-wide and two HUD-specific initiatives that are tracked and scored in terms of both baseline goal accomplishment and the adequacy of plans and progress towards achieving established goals. At HUD, these initiatives are addressing longstanding management problems that will require action over a period of years in order to achieve the President's goals.

In addition, the Department expects to build upon its continuing efforts to improve field management and Headquarters support to the operation and management of HUD's extensive field structure. In particular, the Office of Field Policy and Management will continue to work toward the effective integration of HUD's programs at the community level.

Human Capital

After many years of downsizing, HUD faces a large number of potential retirements and the loss of experienced staff. HUD's staff, or "human capital," is its most important asset in the delivery and oversight of the Department's mission.

HUD has taken significant steps to enhance and better use its existing staff capacity, and to obtain, develop, and maintain the staff capacity necessary to adequately support HUD's future program delivery. During FY 2003, HUD completed the Department's Five-Year Strategic Human Capital Plan with implementation plans, and in FY 2005 will complete comprehensive workforce analyses and plans focusing on its core business functions. During FY 2005, HUD will implement its comprehensive Departmental workforce plan to ensure its workforce is aligned efficiently, skill gaps are assessed and corrected, and HUD staff retiring over the next five years are succeeded by qualified staff to continue quality service and program delivery.

Competitive Sourcing

HUD is working to determine if competition of staff functions identified as commercial would result in better performance and value for the government. However, given HUD's significant downsizing and extensive outsourcing of administrative and program functions over the past decade, opportunities for further competitive sourcing are limited and need to be carefully considered in the context of program risk exposure. HUD's Competitive Sourcing Plan has initially focused on establishing an adequate capacity to support the competitive sourcing process, with identifications of some initial opportunities for consideration of possible outsourcing, or in sourcing competitions to realize the President's goals for cost efficiency savings and improved service delivery. HUD will continue to assess its activities for other areas where competitive sourcing studies might benefit the Department.

Improved Financial Performance

HUD has strived over the past two years to enhance and stabilize its existing financial management systems operating environment to better support the Department and produce auditable financial statements in a timely manner. HUD has received an unqualified audit opinion on its consolidated financial statements for the past four consecutive years, and has reduced the number of auditor-reported internal control

weakness issues. In FY 2005, the Department will continue making progress to reduce the number of material weaknesses or reportable conditions in its financial systems.

Electronic Government/Information Technology

HUD is not only pursuing increased electronic commerce and actively participating in all categories of the President's "E-Government" initiatives, but is also focused on information technology management improvements and maximizing the use of Internet technologies to make HUD more efficient, effective, and responsive.

In FY 2005, HUD will place increased emphasis on the Department's E-Government, Privacy Act, Section 508 Disabilities Act, and Paperwork Reduction Act Programs. HUD's FY 2005 information technology portfolio will benefit from continuing efforts to improve the IT capital planning process, implement project management guidance, strengthen IT project management to achieve performance goals, complete major business segments of HUD's IT business architecture, and continue to improve systems security on all platforms and applications.

Budget and Performance Integration

HUD developed its portion of the FY 2005 Budget with a focus on collecting and using quality performance information, utilizing full cost accounting principles, and emphasizing program evaluations and research to inform decision-makers and managers. Staffing and other resources are aligned with strategic goals, objectives, and accomplishments. The Department will continue to work hard to improve and measure program performance.

HUD Management and Performance

HUD is aggressively pursuing several major efforts to improve its management and performance by strengthening internal controls to eliminate material weaknesses and remove HUD programs from the General Accounting Office's (GAO) high-risk list.

HUD's considerable efforts to improve the physical conditions at HUD-supported public and assisted housing developments are meeting with success. HUD and its housing partners have already achieved the original housing quality improvement goals through FY 2005 and are raising the bar with new goals.

HUD overpays hundreds of millions of dollars in low-income rent subsidies due to the incomplete reporting of tenant income and the improper calculation of tenant rent contributions. Under the PMA, HUD's goal is to reduce rental assistance program errors and resulting erroneous payments 50 percent by 2005. HUD established aggressive interim goals for a 15 percent reduction in 2003 and a 30 percent reduction in 2004. The latest study for FY 2003 indicates that HUD exceeded its error reduction goal for that year with a 30 percent reduction – estimated to be approximately \$600 million in reduced subsidy errors. Updated error measurement studies will be performed on program activity in 2004 and 2005 to assess the effectiveness of efforts to reduce program and payment errors. The Department has a number of training and monitoring programs in place that should produce additional error reductions. In FY 2005, HUD will work with its program intermediaries to fully implement new statutory authority that enables more effective upfront income verifications to eliminate over half of the estimated erroneous assistance payments.

FHA will continue to vigorously attack predatory lending practices that encourage families to buy homes they cannot afford and cause homeowners to lose their homes by refinancing into loans with high interest rates. Elderly and minority homeowners are particularly vulnerable to predatory lending practices, which include property "flipping" (schemes where unscrupulous lenders buy homes and quickly resell them at inflated prices to uninformed buyers), home improvement scams, unaffordable mortgage loans, repeated refinancings with no borrower benefit, and "packing" life insurance and other products into the loan amount.

Since 2001, FHA has mounted a vigorous assault on predatory lending. FHA developed 16 rules to address deceptive or fraudulent practices. This includes the new Appraiser Watch Initiative, improvements to the Credit Watch Initiative that will identify problem loans and lenders earlier on, new standards for home inspectors, a rule to prohibit property "flipping" in FHA programs, and rules to prevent future swindles like the Section 203(k) scam that threatened the availability of affordable housing in New York City. These reforms, and the greater transparency they ensure, will make it more difficult for unscrupulous lenders to abuse borrowers. The HUD budget ensures that consumer education and enhanced financial literacy remain potent weapons in combating predatory lending.

The PMA tasked HUD with streamlining the Consolidated Plan process to make it more useful to communities in assessing their own progress toward addressing the problems of low-income areas. HUD works closely with state and local program stakeholders on this initiative. It is anticipated that statutory and/or regulatory proposals to meet the intent of the PMA will be announced shortly. Pilot testing of a variety of streamlining efforts will be completed during 2004, which may lead to additional proposals for change. As an outgrowth of the initiative, HUD issued a Notice entitled "Development of State and Local Performance Measurement Systems for CPD Formula Grant Programs," which provides guidance to communities on developing and implementing performance measurement systems.

HUD acquires over \$1 billion in contracted services and goods each year. As part of an overall strategy to improve HUD's acquisition management, actions are being taken to ensure that HUD's centralized contract management information system contains reliable data on the number of active contracts, the expected cost of the contracts, and the types of goods and services acquired, and that its financial management information systems provide complete and reliable obligation and expenditure information on HUD's contracting activities. Other aspects of HUD's acquisitions management improvement strategy are being addressed through the human capital management strategy, which incorporates actions to enhance HUD's procurement staff capacity and improve guidance and training for acquisition officials throughout HUD.

CONCLUSION

Our success will be judged by the lives and communities we have forever changed through our work: the young families who have taken out their first mortgage and become homeowners; the once-homeless men and women who now have a home; the faith-based and community organizations that are successfully using HUD grants to deliver social services; and the neighborhoods once facing a shortage of affordable housing that now have enough homes for all.

Empowered by the resources provided for and supported by the Administration's proposed Budget for FY 2005, new success stories will be written and our communities

and the entire nation will grow stronger. And more citizens will come to know the American Dream for themselves.

I would like to thank each of you for your support of our efforts. We welcome your guidance as we continue our work together.

Thank you.