OVERSIGHT OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)

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BEFORE THE

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OVERSIGHT OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)

Tuesday, March 1, 2011

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 2:20 p.m., in room 2128, Rayburn House Office Building, Hon. Spencer Bachus [chairman of the committee] presiding.

Members present: Representatives Bachus, Hensarling, Manzullo, Biggert, Miller of California, Garrett, Neugebauer, McHenry, Fitzpatrick, Luetkemeyer, Huizenga, Duffy, Hayworth, Hurt, Dold, Schweikert, Grimm, Stivers; Frank, Waters, Maloney, Velazquez, Sherman, Baca, Lynch, Scott, Green, Cleaver, Moore, Ellison, Donnelly, Carson, and Carney.

Chairman BACHUS. Good afternoon. The committee will come to order.

Secretary Donovan, we are pleased to have you here. I think that the committee has had a very constructive dialogue with you on issues for which we have jurisdiction within your Department. I commend you for your professionalism and welcome you back to the committee. In fact, I will tell members on both sides, there are issues that I think there is bipartisan agreement on, and I hope to build on that.

I will say to the committee members, Secretary Donovan will be very involved in the crafting of a Fannie Mae-Freddie Mac solution with the Administration because FHA is obviously an integral part of that, and HUD.

With that, Ms. Biggert is recognized for 2 minutes.

Mrs. BIGGERT. Thank you, Mr. Chairman, and welcome, Secretary Donovan. Thank you for joining us this afternoon.

I appreciate that the Administration has submitted a budget request for next year. Perhaps unfortunately, rather than cut costs, it builds on new spending authorized during previous Congresses.

For example, the largest component of HUD's request is the Section 8 Program, over $19 billion, and an over $1 billion increase over Fiscal Year 2010. However, the Administration offers no plan to empower individuals to gain independence from the program. Instead of growing the Federal budget, the Federal Government must prioritize its resources so that programs such as Section 8 don't continue to grow exponentially.

Too much borrowing, taxing, and spending has been a drag on our economy. Before embarking on new spending, agencies like HUD first must get their fiscal house in order.

Instead, we are presented with a budget that asks Congress to fund new Federal programs such as the trust fund to build more housing. Where is the proposal to boost private sector investment in single and multifamily housing?

Throwing good money after bad is not the answer to our Nation's fiscal woes. We must make the tough choices and focus our limited resources on our most vulnerable populations: the homeless; children and youth; seniors; the disabled; and our veterans. But most importantly, the Federal Government must be laser-focused on creating an environment that supports private sector job creation. With good jobs, families can afford housing.

So I look forward to working with the Administration to achieve these goals and I look forward to your testimony.

I yield back.

Chairman BACHUS. Thank you.

Mr. Sherman is recognized for 2 minutes.

Mr. SHERMAN. Thank you. I am going to be focusing on the GSEs, which are so important to housing. I hope that we have a situation where access to the securitization market is not limited to the four largest banks in the country. We need someone who packages the loans of the smaller institutions, credit unions, and community banks and taps into the capital markets.

I hope that your people have advised you just what a crushing effect it would have on the economy in Los Angeles and roughly 10 other cities if the conforming loan limit is allowed to drop at the end of this fiscal year. It is almost impossible to get a loan just above the conforming loan limit. Of course, if you need $20 million to buy a home in Malibu, that can be arranged, but those people tend to own the bank themselves.

The theorists and the ideologues say that we should just abolish Fannie and Freddie and not have any Federal involvement in financing mortgages. I have yet to hear very many of the industry stakeholders or practitioners, let alone homeowners' groups, call for that kind of theoretical purity. I hope that what we see at least for the next few years is a Federal effort to support things at the current conforming loan limit and avoid the crashing economic double-dip effect it could have if we see another decline in housing prices.

Thank you.

Chairman BACHUS. Mr. Hensarling is recognized for 2 minutes.

Mr. HENSARLING. Thank you, Mr. Chairman, and welcome, Mr. Secretary. I have been impressed with a number of things I have seen you do in your Department. I am looking forward to hearing more about some of your plans for efficiencies and consolidations within the Department.

I must admit though, as I look at the budget request and put it into the context of the Nation's fiscal challenges, I wonder when we are going to stop spending money that we do not have? It is still a budget request for $47.8 billion and over the last 15 years, according to OMB, all Federal housing programs—and admittedly that is somewhat out of your jurisdiction—have grown from $15.4 billion to $53.8 billion, representing a 249 percent increase, when GDP over the same time period increased 96 percent. In other words, the cost of Federal housing programs is growing at a rate that is 2½ times greater than the economy.

The family budget can't afford the Federal budget. As we are looking at not just our Nation's first trillion dollar deficit, our Nation's second trillion dollar deficit, and now our Nation's third and largest trillion dollar-plus deficit, I am reminded again if we want to help foster job creation today, if we want to save our children from bankruptcy tomorrow, we have to quit spending money we don't have. And unfortunately, what we see from this Administration is red ink as far as the eye can see.

So, I hope that through the Secretary's testimony, we will hear more ideas about what can be done to make this more efficient, to consolidate, and to help us again create jobs and save the next generation from bankruptcy.

I yield back the balance of my time.

Chairman BACHUS. Thank you, Mr. Hensarling.

I recognize Mr. Green for 1 minute, and immediately after that, Mr. Baca for 1 minute.

Mr. GREEN. Thank you, Mr. Chairman, and I thank the Secretary for being here today.

Mr. Secretary, among the questions that I will ask will be one that will focus on housing for persons with disabilities. I see that there is a cut in that, a proposed cut in that, and I am very concerned about it, because many of the persons with disabilities are persons who are returning from Iraq and Afghanistan, and I am hopeful that we will be able to accommodate persons who have served our country well and who will now need some service from our country.

This is a very serious concern with me, and I will eagerly anticipate your response to my concerns about these veterans and other persons with disabilities as well.

I yield back.

Chairman BACHUS. Mr. Baca?

Mr. BACA. Thank you. First of all, I want to thank you, Mr. Chairman, and Ranking Member Frank for calling this hearing. I also want to thank Secretary Donovan for being here and offering his perspectives on HUD's budget.

Only 2 months ago in Congress, we already had reached a critical point. One of the greatest challenges that our country faces is the need to rein in our national debt and get our fiscal house in order. However, in a rush to do so, some of my colleagues seem to have tunnel vision, blindly cutting critical government programs without any regard to what they do or who they help and the overall impact on our country.

I state this because many of these same individuals, Republicans, who don't want government to intervene in housing, yet live right here in the Capitol and don't pay rent and don't invest in the private sector, and they come out and say let's invest in the private sector, and they are living right here in the Capitol. In fact, just after this Chamber passed a short-sighted budget measure a couple of weeks ago, many Republicans released details on the harm those cuts would cost.

Today, we are here to discuss the budget for the Department of Housing and Urban Development. I say as we do that, let's do it in line of what we want them to do, and not of ourselves, as many individuals who live right here in the Capitol aren't paying a cent, aren't investing, yet government is paying for their housing.

With that, I yield back the balance of my time.

Chairman BACHUS. Thank you, Mr. Baca.

At this time, I recognize Mr. Miller for 2 minutes.

Mr. MILLER OF CALIFORNIA. For the record, I live in Virginia. I rent an apartment over there. So I don't live free at the Capitol.

Mr. BACA. You are one of the good guys.

Mr. MILLER OF CALIFORNIA. I am one of the good guys. But we have a tough budget year out there. There are a lot of difficult decisions that need to be made, and I am really concerned that we be cautious not to make things worse than they already are. There is no doubt that the housing industry in this country is suffering, the housing market globally is suffering, and I think we need to look at what went wrong, what we could have done to have prevented it, and what we need to do in the future to make sure we have the most robust housing market you can have in this country without putting taxpayers at risk.

My concern is with FHA. Your default rates are higher than I think they should be, yet they are still lower than the private sector's. I am not saying you did everything right, because a lot of things were done wrong. But your default rates are close to 5 percent, as I put it, correct? Fannie Mae is about 4.2 percent, Freddie Mac is about 3.1 percent. The best prime market default rate out there is 5.4 percent. Subprime ARMs, 38.7 percent, subprime loans in general, 26.5 percent.

So when you look at those numbers, you have to say something is structurally wrong with the mortgage industry at large in this country, and we should be looking at that, rather than just saying we need to deal with Freddie, Fannie, and FHA. Yes, we need to deal with their problems, without a doubt. There is not a doubt there are serious problems and we need to address those problems.

But at the same time, when we are pulling out of a marketplace on the FHA high-cost areas, as we are pulling back, increasing rates, you are talking about doing the same thing with Freddie and Fannie, there is not a private sector entity out there to immediately pull in during this distressed marketplace.

If we are going to protect taxpayers, 65.1 percent of the homeowners in this country are taxpayers, so we need to protect everybody. We need to make sure we do the best we can for the entire sector. And I think we need to ask what went wrong, how do we fix it and correct it, and how do we not put taxpayers at risk in the future? I am afraid we have not done that, gone back and asked, what did we do wrong in Freddie and Fannie and FHA, what could we have done better, and how do we move forward in the future? I hope you can address that.

I yield back the balance of my time.

Chairman BACHUS. Mr. Frank is recognized for 3 minutes.

Mr. FRANK. I thank the chairman.

First, if I could, before my time, I want to give encouragement to people who felt they were conscience-bound to read the financial reform bill, which is, as I recognize, a large bill. You don't have to do that. You can hold off now and wait for the movie version, because I have just been told that Senator Dodd has been named head of the Motion Picture Association of America. So "Dodd-Frank, the Movie" is probably on the horizon and you can skip reading it. The sequel will be, "The Financial Inquiry Report" so people can keep that going. I thank you for the time. I thought I would give my former colleague a mention.

I welcome the Secretary, whom I think has done an excellent job of trying to manage his resources. Let me say I understand the concerns about spending in the cities, and I am inclined to agree that in these past few years in particular, we have greatly overspent in a number of cities—Baghdad, Fallujah, Kandahar, Kabul. We have been spending a great deal of money I think to no great purpose elsewhere.

Having thought that the war in Iraq was a great mistake and it having cost us over $1 trillion, with more to come, I am not shamed by those who tell me I am spending too much if I want to have decent housing for poor elderly people or if I believe that the notion of a homeless veteran is really a shameful thing in this country and to the extent possible, it is not possible in every case, there are personal factors, we ought to try to diminish it.

I in particular hope that we can work, as I said earlier today, on a better set of policies for affordable rental housing. And in particular, as you know, Mr. Secretary, over the years, in the beginning of the 1960s, with a Federal subsidy on interest, the private sector, both the profit and nonprofit private sector built hundreds and hundreds of thousands of units for people not at the very bottom of the spectrum generally, but in the lower- to moderate-income range, and it was built under a program that I think while it had good results in some ways, it was flawed because it allowed for these units to no longer be protected after a while. I think preserving those units is a very important thing.

Now, people talk about the costs of housing, but one of the problems we have is that we have taken this policy that says if you moved into one of those units and it no longer is under the protection it was under when the subsidized loan was given, we will give you a Section 8, a voucher far beyond what you would ordinarily get to meet with those rents. So while we allow the units to go out of the inventory, that has the impact of raising the rental payments. I think by far the most efficient and inexpensive thing we could do would be to preserve those units.

It is something we had been working on, and obviously things have changed here, but I would hope that it is something that we could continue to work on. Similarly, with regard to Fannie Mae and Freddie Mac, I asked Secretary Geithner about this and he acknowledged what I think is clearly the case, and I have asked him to document it, that the losses on multifamily housing were far smaller as a percentage of outcome because they were clearly smaller in general than single family. And I would hope as we go forward with a new set of housing finance rules, which we very much need, that we would be making sure that we preserved, in fact improved, our ability to finance multifamily rental housing, it doesn't have to be obviously one building, multifamily developments, and that we would provide some revenue so that the private sector could continue what we have done successfully in the past, take a Federal subsidy, private sector activity, build some rental housing, and not just build it for a short, limited period of time, but indefinitely.

So as we go forward on the GSE issue, one of the things I would hope we could work together to do is to find some stream of revenue that would not only be small enough to have no negative impact on housing finance in general, but would help us preserve that rental housing.

Thank you, Mr. Chairman.

Chairman BACHUS. Thank you, Mr. Frank.

Mr. Huizenga, for 1 minute.

Mr. HUIZENGA. Thank you, Mr. Chairman, I appreciate that, and that actually leads in perfectly to my question.

Earlier today, we had Secretary Geithner here talking about a myriad of issues, but one of the issues brought up was exactly what you heard about now, there was not enough of an emphasis on rental housing and assistance in this time. But as I understand, in your Fiscal Year 2012 budget summary, 72 percent of your budget is going into 3 rental assistance programs, 72 percent.

So I am curious, and I have 1 minute as we are going into the question period time, do you really need more emphasis on rental housing programs, 72 percent of your budget, which is an increase over what has been happening in previous years, or do you need to spend that money on some other programs? I will appreciate your addressing that a little later on.

Thank you.

Chairman BACHUS. Mr. Scott, for 1 minute.

Mr. SCOTT. Thank you very much.

Over here, Secretary Donovan. Let me commend you on the work that you are doing. It was certainly a joy to have you in Atlanta, where we did some great work there and we are going to do more, and I want to thank you for working with me and Treasury in our upcoming home foreclosure event program that we have.

Just a point: I would like to see some voices coming from HUD, from the Administration, to point out the dire consequences if some of these very drastic cuts are taking place, because it is not right. It is not fair as we want to deal with the real challenges of the debts and the deficit to disproportionately do it on the backs of the very people who can least afford it.

And for many of our local municipalities and governments who are thrust into these programs, one of the most drastic areas has been a recent CR that we passed, I think last week or so, that would drastically cut the funding for the CBDGs down by 62 percent from $3.9 billion to $1.5 billion. The consequences of that is very dear to some of these communities, particularly in districts like mine and some other areas.

So I am thinking I would want to see HUD fight a little bit and bring to the fore what these consequences are so the American people will know that if these cuts go through, this is what is going to happen. Then, we can make a rational judgment on it with the spirit of the American people with us.

Thank you, Mr. Chairman.

Chairman BACHUS. Thank you, Mr. Scott.

There is 1 minute remaining on our side. Are there any members who wish to speak? Let me just use the time that we still have.

Mr. Secretary, I think we do realize that our low-income Americans, a great percentage of them cannot afford homeownership. For them, renting is really the best option, and many of them, I think as many as 25 percent of them, spend over half of their income on shelter or rental income. I do believe there is some agreement by this committee that multifamily housing for low-income Americans is a concern if we prioritize our budget. So I would associate myself with that.

Rental assistance is a large percentage of the budget, and I think most of that is Section 8. I am not sure if improvements couldn't be made to address where that money goes, as Mr. Frank said, multihousing family and many others.

With that, Mr. Secretary, we welcome you before the committee and look forward to your testimony. Your written statement will be, with unanimous consent, entered into the record. We will hear your oral statement at this time.

STATEMENT OF THE HONORABLE SHAUN DONOVAN, SECRETARY, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)

Secretary DONOVAN. Thank you, Chairman Bachus, and also Ranking Member Frank, as well as all the members of the committee, for this opportunity to testify about HUD's Fiscal Year 2012 budget proposal.

This afternoon, I would like to discuss the investments it calls for to help America win the future by out-educating, out-innovating, and out-building our competitors. I will also highlight the steps our proposal takes to improve how we operate HUD's programs and the tough choices it makes to ensure we take responsibility for our deficits.

Mr. Chairman, in developing this proposal, we followed three principles. The first is to continue our support for the housing market while bringing private capital back. Two years ago, with the housing market collapsing and private capital in retreat, the Administration had no choice but to take action. The critical support FHA provided has helped over 2 million families buy a home since that time and nearly 1.5 million homeowners refinance into stable, affordable products with monthly savings exceeding $100.

And while the Federal Housing Administration and Ginnie Mae will continue supporting the housing recovery in the year ahead, we must also help private capital return to the market. This is a process that HUD began many months ago, and I want to thank this committee for passing legislation in the last Congress to reform FHA's mortgage insurance premium structure. With this authority, FHA announced a premium increase of 25 basis points last month. Because of these reforms and others, FHA is projected to generate approximately $9.8 billion in receipts for the taxpayer in Fiscal Year 2011. Indeed, the reforms that are generating these receipts today have set the stage for more private capital to return in the years to come while strengthening FHA's reserves and ensuring that it remains a vital source of financing for underserved borrowers and communities.

Just as importantly, Mr. Chairman, while HUD's Fiscal Year 2012 request is $47.8 billion in gross budget authority, because of

FHA and Ginnie Mae receipts, the cost to the taxpayer for this budget is only $41.7 billion, fully 2.8 percent below our Fiscal Year 2010 budget and more than meeting the President's commitment to a 5-year domestic discretionary spending freeze.

The second principle we used to develop our budget was to protect current residents and improve the programs that serve them. While the median income of American families today is over $60,000, for families who live in HUD-assisted housing, it is $10,200 per year, and more than half are elderly or disabled.

At the same time, having seen from 2007 to 2009 the largest increase in the history of HUD's worst-case housing needs survey, it is clear that the recession hit these families hard. That is why 80 percent of our proposed budget keeps these residents in their homes and provides basic upkeep to public housing while also continuing to serve our most vulnerable populations through our homeless programs.

Because the cost of serving the same families grows each year, protecting existing families in our programs required us to make tough choices with the remaining 20 percent of the budget, including the decision to reduce funding for the Community Development Block Grants, HOME Investment Partnerships, and new construction for HUD-supported housing programs for the elderly and the disabled, all between 5 and 10 percent.

These are difficult cuts. I saw for myself as a local housing official the difference these funds can make, supporting senior housing, boys and girls clubs, YMCAs, and other providers of critical community services. But American families are tightening their belts and we need to do the same.

At the same time, this budget makes a strong commitment to doing more of what works and to stop doing what doesn't. By including the Section 8 Voucher Reform Act in the budget, we will simplify and streamline the voucher program and save $1 billion for the taxpayer over the next 5 years while supporting the ability of public housing authorities in small towns and rural areas to better serve the working poor. Indeed, thanks to this committee's work on the Homeless Emergency Assistance and Rapid Transition to Housing Act (HEARTH), the budget funds a new Rural Housing Stability Program that reflects the unique and growing needs in those communities.

This budget also holds our partners accountable for the funding they receive from HUD. To fully fund the Public Housing Operating Fund, we require public housing authorities (PHAs) with excess reserves to contribute $1 billion. These resources were set aside so that our PHAs could continue operating during a rainy day, and I think would all agree that rainy day is here.

These efforts point to a broader commitment expressed through our Transformation Initiative (TI) to improving HUD's programs. TI funds are replacing data systems in our largest program, housing choice vouchers, that date from the early 1990s, so we can hold PHAs accountable for managing their budgets, just like families and businesses are doing across the country.

The flexibility TI provides has also allowed us for the first time to offer technical assistance across all our community planning and development programs and launch a new initiative to improve the financial management and accountability of troubled housing authorities. And by supporting research, evaluation, and program demonstrations, TI improves HUD's own accountability by identifying what we do well and what we need to do better.

These needed reforms allow us to propose increased investments in programs we know work, like the HUD–VASH program for homeless veterans. This effort is built on the solid body of evidence that permanent supportive housing both ends homelessness and saves money for the taxpayer by putting an end to the revolving door of emergency rooms, shelters, and jails.

As such, this budget would increase funding for homeless programs by more than 29 percent over 2010 to keep the President's commitment to opening doors, the first Federal strategic plan to end homelessness which the Administration unveiled last June to end chronic and veterans' homelessness by 2015 and homelessness among families and children by 2020.

All told, this combination of tough choices and needed reforms would allow us to serve over 4.5 million families in our core rental assistance programs, 86,000 more than in 2010.

Our third principle for developing this budget is to continue critical initiatives that have been part of our budget for the last 2 years, but in this fiscal climate to propose no new initiatives. The President has made clear that winning the future depends on America winning the race to educate our children. But that is not possible if we are leaving a whole generation of children behind in our poorest neighborhoods.

That is why we worked with this committee last year to pass Choice Neighborhoods legislation that was implemented in our budget and have again proposed $250 million for Fiscal Year 2012. This funding will allow communities to use the mixed-use and mixed-finance tools pioneered by Secretaries Jack Kemp and Henry Cisneros with the HOPE VI Program to transform all of the federally-assisted housing in the neighborhood.

Similarly, ensuring that America out-builds our competitors requires us to protect and preserve public housing for the future. Right now, we are losing 10,000 units from our public housing stock every year. At the same time, there is billions of dollars of private capital sitting on the sidelines that could put tens of thousands of construction workers to work rebuilding this housing.

That is why, Mr. Chairman, we have proposed a $200 million demonstration in our budget to preserve up to 255,000 public housing units using long-term, project-based rental assistance contracts. As we have seen in the Section 8 Program and the low-income housing tax credit, opening these properties to total private capital not only brings new funding to affordable housing, but also a new sense of discipline that extends from the way these properties are financed to the way they are managed.

Lastly, Mr. Chairman, American businesses, large and small, cannot out-innovate their competitors when their workers spend 52 cents of every dollar they earn on housing and transportation combined, and moving products on our roads costs 5 times as much wasted fuel and time as it did 25 years ago. That is why we request another $150 million for our sustainable communities initiatives which helps regions and communities develop comprehensive housing and transportation plans that create jobs and economic growth.

In a community like Austin, Texas, which is linking its long-term regional transportation plan to 37 mixed-income communities near transit and job centers, you can see how the grants it provides aren't about one-size-fits-all rules that tell communities what to do, but saving the taxpayer money by coordinating investments more effectively and efficiently. The demand for these kinds of innovations explains the extraordinary demand for this program. And it wasn't just coming from our largest metro areas. Indeed, over half of our regional grants were awarded to small regions and towns.

So, Mr. Chairman, HUD's Fiscal Year 2012 budget proposal isn't just about spending less, it is also about investing smarter and more effectively. It is about out-educating, out-building, and out-innovating our competitors. It is 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 is about the results we deliver for the people and places who depend on us most.

For HUD, winning the future starts at home, and with this budget, I respectfully submit, of targeted investments and tough choices, we aim to prove it.

Thank you.

[The prepared statement of Secretary Donovan can be found on page 40 of the appendix.]

Chairman BACHUS. Thank you, Mr. Secretary.

At this time, I recognize Ms. Biggert, who is the Housing Subcommittee Chair, and after that we will recognize Ms. Hayworth and Mr. Schweikert, in that order, on the Republican side.

Mrs. BIGGERT. Thank you, Mr. Chairman.

Mr. Secretary, this goes back a little bit to what I said in my opening statement: I am wondering about the long-term costs associated with the existing vouchers and what will be the impact of Section 8 funding costs, what impact they will have on the overall HUD budget and the other programs within the HUD budget.

Do you have a plan or are you going to have a plan to empower individuals to gain independence from the program? The program seems to work, but nobody ever leaves it, and we certainly have long waiting lists for Section 8.

Secretary DONOVAN. Madam Chairwoman, thank you for the question. I think it is very important that we focus in on the Section 8 Program.

As I mentioned in my testimony, over half of the residents of public housing are either seniors or people living with disabilities. But beyond that, for those who are able to work, we estimate that around 90 percent of those living in public housing in Section 8 who are able to work, do work, and it is critical that we take additional steps to encourage them to take up work.

Mrs. BIGGERT. Do you have data on how long the average stay in Section 8 housing is?

Secretary DONOVAN. Typically, what we see for non-elderly or disabled is an average stay of 4 to 5 years in public housing. I think one of the programs that you have focused on historically, which is absolutely critical, is the Family Self-Sufficiency Program.

I know this from my own experience at the local level where we were expanding with our own funds family self-sufficiency. We are in the process, using our Transformation Initiative dollars, of doing the first ever full national study of the Family Self-Sufficiency Program because we believe that it provides the kind of incentives that are necessary to help people gain work and succeed, as well as to open up spaces within the programs for those who are on the waiting lists.

So, with your support, certainly we would look to do more with the Family Self-Sufficiency Program.

Mrs. BIGGERT. Thank you. Then this morning, there was an article published by the American Bankers Association stating a deal had been made among the regulators writing the QRM rule, and among the components reported was the 20 percent downpayment requirement, loan servicing standards, and loan modification standards.

Particularly with the 20 percent down standard, I am concerned that there will be few first-time buyers who will be qualifying for the QRM. So won't that result make most first-time buyers fall into the FHA program, which you are already trying to dampen down, too?

Secretary DONOVAN. First of all, let me assure you that no agreement among all the regulators has been reached at this point. There are numerous parties, including HUD, that are part of those discussions, and there is no final agreement or proposal at this point.

On your specific point about the effect on FHA, as you know, there is an exemption for Fannie Mae—for FHA and for Ginnie Mae from the QRM standards, and there is some risk that we would see additional demand for FHA that would come out of a standard.

On the other hand, it is important that we ensure that capital is driven toward safe, stable products. And the proposal we will put out will be a proposed rule. There will be plenty of time for this committee and the public to weigh in on any proposal. It is possible we might even propose some alternatives within that rule. And this is one of the issues that we will be talking about, balancing safety and soundness with the risk of potentially driving more business to FHA under the rule.

Mrs. BIGGERT. This morning, Secretary Geithner talked about the Administration recommending a joint FHA and FHFA working group to tighten the standards. Is this the same one, or is this another group?

Secretary DONOVAN. I don't know exactly the question he was responding to, but there are a number of places where we are working jointly with FHFA. He may have been talking about servicing standards, and in particular the standards for compensating servicers for the servicing work that they do. We have undertaken with FHFA a broad look at those standards.

It is clear that the current compensation model for servicing is broken: it is not working for consumers, homeowners; it is not working as well as it should for FHA; and it is not working well enough for the servicers because of the accounting and other complexities of the current standards. So we are working together on that initiative.

Chairman BACHUS. Thank you, Chairwoman Biggert.

Ranking Member Frank.

Mr. FRANK. I want to pick up—I am struck by my colleague from Illinois worrying now that we are going to be too tough on mortgages for low-income people. I would hope we wouldn't go from complaining totally that they were too loose to now complaining they are too tough without ever passing go. And I disagree with her. I don't think the 20 percent is out of line. There are a couple of things that need to be said here.

First of all, I would hope we would not buy into the argument that no mortgage loans will be made if they don't meet the qualified residential mortgage definition. Remember, the qualified residential mortgage definition gives you an exemption. It doesn't say you can't give or make the mortgage. It gives you an exemption from having to retain 5 percent of the loans you make in a securitization. And the notion that no one will make loans unless they can 100 percent securitize is clearly false.

In the first place, many of the smaller institutions never securitized in the first place. Many of the community banks don't securitize. They will be unaffected by this, whatever the qualified residential mortgage number is that gets them out from under the requirement that they retain some of their capital.

Now, there are some who do securitize everything. One group of mortgage lenders came to us during the debate and said, "If you make us keep 5 percent of the loans when we securitize it, we won't make any loans." We asked, "Why?" We didn't think 5 percent was excessive. They said, "We don't have any capital." In other words, they don't have any money and they were resentful that we were telling them not to lend money they don't own. When people lend money they don't own, it doesn't end so well.

So this notion that you have to weaken the qualified residential mortgage so people can buy homes, remember again, it is not a ban on mortgages. It is an exemption from having to keep 5 percent.

Secondly, while you have the smaller ones, Wells Fargo has announced that they believe they can make loans under this amount or that they could keep 5 percent.

So I think that was one of the key causes of the crisis, people lending money that they had no stake in when it came to repayment.

And I notice, by the way, now that we have seen a concern about the securitization of commercial real estate. As I recall the bill, there is no exemption—the securitization risk retention does not apply only to residential mortgages, it applies to anybody who is lending money and securitizing it. And I hope the regulators, not you, because it is not housing, will insist on that for everybody.

So I want to disagree with my colleague. Weakening the qualified residential mortgage, remembering again, it is not an absolute bar, it says simply that you can make these loans, but if you make those loans, if you made a loan with very little downpayment, then you ought to have to keep 5 percent of it. All that means is—and I know you said you are going to try the get the FHA to have better standards. I am all for that, and the FHA has done a very good job under yourself and Commissioner Stevens. It began at the end of the Bush Administration. But the best way to do that outside the FHA is to tell the private sector, “Here is a good incentive for you not to lend money to people who won't pay it back. If they don't pay it back, you are going to take a loss.”

So as I said, I would be very disappointed to see a substantial weakening of the qualified residential mortgage exemption to the risk retention, and the notion that if you don't give people the exemption, and, of course, the exemption goes to everybody, then there will be people, community banks will continue to make loans and not securitize, as they told us. They didn't get too concerned about this. Other institutions will make the loans at the 20 percent, and others will presumably make the loans and securitize them.

Are we really being told there are so few institutions out there with confidence in their own judgment that they won't make residential mortgage loans which could be highly profitable unless they were able to pass off the whole loss?

I have used up almost all my time. We have the Secretary here, we have other members who want to ask questions. So I am going to yield back and I will give my minute into the general fund here.

But I would be very disappointed if we had a dilution of the qualified residential mortgage. Again, it is being talked about as if it was the absolute limit, and if you couldn't meet that, you couldn't make a mortgage loan. No. All it says is if you want to make mortgage loans that don't meet that test, then either you can't securitize it, people can hold the mortgages in their portfolios, or if you securitize it, you have to retain 5 percent, showing a fairly small confidence in your own judgment.

I yield back.

Chairman BACHUS. Thank you.

Ms. Hayworth?

Dr. HAYWORTH. Thank you, Mr. Chairman.

Mr. Secretary, I greatly appreciate your comments regarding the value of the push to make HUD more efficient and more effective. It is absolutely crucial at a time when we are spending 42 cents of every taxpayer dollar on debt service alone, and in which we have an over 9 percent unemployment rate that we are finding difficult to overcome.

You also extol the value of private funding as instilling discipline in these market placing, and I think that is so important to recognize, that we should, I would submit to you, minimize Federal involvement in the housing and mortgage marketplace to the extent we can and keep it to the neediest.

I have an example of why that is so important from my own home county, which is Westchester County, New York. We are struggling under the burden of a Community Development Block Grant agreement that was made under a previous county executive's administration from HUD, and it has been very, very difficult to try to comply with the terms of that grant because they simply don't make sense in our county. It was not this county executive's error, but we are now living with the consequences, which points up again the exceedingly difficult challenge of having the Federal Government involved in local marketplaces.

But they had to hire a consultant to help, at HUD's discretion, if you will, to help sort out this mess. And I wonder if you might hazard a guess as to how much that consultant is charging per hour, apparently a fee, a figure set by HUD, what you might consider a reasonable fee. I am not trying to put you on the spot, but what you might consider a reasonable sum per hour to consult and help our county get out of this predicament.

Secretary DONOVAN. Congresswoman, let me make sure I am clear. This was a court case brought against the county. There was a court-appointed master essentially who was put in place to implement the decision of the court.

Dr. HAYWORTH. It is very difficult, yes.

Secretary DONOVAN. I would have to say I am not sure what the court-appointed monitor was charging.

Dr. HAYWORTH. It is over $900 an hour that the taxpayers of Westchester County, New York, are now paying, the sorely pressed taxpayers. We are losing businesses, unfortunately, to neighboring States and other States because the tax structure in Westchester County, although it is a wonderful county in so many ways, is so difficult to cope with.

So I wonder if you might as our Secretary see if you could possibly help mitigate some of that burden, if that sounds at all like that might be a rather exorbitant amount for the county to be disbursing merely to have some sort of regulator, if you will, in place. I would be most grateful on behalf of Westchester County, New York.

Secretary DONOVAN. Congresswoman, this is an issue that I know has been a lot of focus in the county. Under the prior county executive, there was this court case brought independently against the county for not complying with their required fair housing obligations. The court did make a determination.

I will say that we have been somewhat concerned that under the new county executive, for example, he vetoed a piece of legislation that the county legislature passed and was required by the settlement. There are a number of other steps that have been taken that I think have caused this to go on longer than anyone would have liked. Certainly, we are very interested in trying to resolve it.

We have offered technical assistance from the agency so that we could minimize any costs to the taxpayer there, to the local taxpayers in terms of working this through, but, unfortunately, we haven't been able to get compliance with the ruling at this point.

Again, this is not HUD's decision. It was the court that imposed this decision, and we would like nothing more than to get to a resolution, which is, frankly, to build a certain number of units in the county on sites that I think we have been able to work with the county effectively to try to identify. We will do everything we can to accelerate it and make sure it gets resolved as soon as possible.

Dr. HAYWORTH. That would be much appreciated. There has been a tremendous amount of difficulty finding appropriate sites within the county and sites that would make sense actually for those who would indeed inhabit these new homes. It is very difficult to connect them with job opportunities. This is almost part of a spiral in which we have a heavy tax structure. Federal taxes certainly play into that. HUD is part of our Federal tax burden, and because of that, we don't have the jobs climate that we should. And, of course, the best way to afford a home and to afford a private rental or mortgage is to have a job.

So, again, I laud your emphasis on streamlining what HUD does so that we can relieve these burdens from places like Westchester County, where it is starkly in evidence that a Federal mechanism can be very difficult to layer on top of a local community.

I yield back my time.

Chairman BACHUS. Thank you.

By prior agreement of Mr. Green and Mr. Carney on this side, Mr. Green on this side, and Mr. Schweikert on our side, will be the next two speakers. Mr. Green?

Mr. GREEN. Thank you very much, Mr. Chairman, and I thank the persons who agreed.

Mr. Secretary, at first glance it does appear that there is a $104 million decrease. However, there was a transfer, and as a result of the transfer, there is actually a $10 million increase when compared to the 2010 budget, and we are talking about now for the 811 program, persons with disabilities. So I compliment you for looking out for persons with disabilities, many of whom are veterans. It is very important to me and people in my district. I happen to have a VA hospital in my district.

However, the CR that was passed by my friends on the other side would cut approximately $210 million, and that would be a 70 percent cut, which could lead to approximately 14,000 households, and these are persons with disabilities either losing their assistance or being displaced.

Now, my assumption is that this was a gross oversight and my friends on the other side would not cut 70 percent from a program that will have some significant impact on persons with disabilities, many of whom are veterans. There is no question that veterans are returning from these wars and they are disabled. So I am going to assume that this is an oversight and give my friends the benefit of the doubt.

But I would like you to comment briefly on what this cut of $210 million, which is 70 percent from the 811 program, what would the impact be, if you would, on persons with disabilities? And when the yellow light comes on, if you could wrap it up, I have one more question. Thank you.

Secretary DONOVAN. Congressman, the 202 and 811 programs, the programs for the elderly and people with disabilities, are our primary tool for construction of new units at HUD for seniors and people with disabilities. And as I said in my testimony, we did have to make difficult decisions in our budget this year to cut by between 5 and 10 percent those programs so that we would have fewer new units.

Obviously, a much deeper cut in those programs would have a far more serious effect on limiting the number of seniors and people with disabilities who would be able to get access. We see typically many year-long waiting lists for these properties around the country, and that is why we made difficult decisions but felt we needed to maintain a significant level of funding for new units in those programs.

Mr. GREEN. And do you find that a good many of the persons with disabilities are veterans?

Secretary DONOVAN. We do. Also, one of the reasons why we continued to propose an investment of $75 million in 10,000 new HUD–VASH vouchers in the budget is because we have seen great success in housing veterans who are at risk of homelessness or are already homeless through that effort as well.

Chairman Biggert asked about the rising costs of Section 8. A significant part of that has been the renewal of these HUD–VASH vouchers as they have come into the Section 8 budget for the first time. When we came into office, the President did, there were only about 1,200 veterans around the country who were being housed by VASH. We are now up to over 20,000 veterans who are housed under VASH, and it has put us a good way down the road toward keeping the President's commitment to end veterans' homelessness by 2015.

Mr. GREEN. Thank you. I compliment you and the President for that commitment. It means a lot to many people in my district and probably people around the country.

One additional question. There is a contemplation of terminating HAP, FHA, NSP, which, of course, is the Neighborhood Stabilization Program, the Emergency Mortgage Relief Program. If these programs are terminated, my suspicion is there will be an impact on housing of persons. Many persons who might benefit from these programs and stay in their current housing circumstance will now be pushed into other circumstances.

Can you give a comment, please, on the impact of terminating these programs in terms of how it will impact your budget and what you are trying to accomplish? Again, I thank the President for what he has done.

Secretary DONOVAN. I know you have a hearing on that tomorrow morning. Commissioner Stevens will be testifying along with Assistant Secretary Marquez on the programs. But let me just quickly frame some of the issues there.

There would be a substantial risk not only to the families who benefit from those programs and the neighborhoods that benefit from those programs, but also to the broader housing market. When the housing recovery is still fragile, we need to continue to do more.

Every month, we have tens of thousands of new homeowners who are at risk who benefit from modifications under the HAMP Program. Our data shows that the redefault rates have been dramatically lower than in other programs, so they are successful. We have seen average reductions in payment of over $500 a month under that.

The FHA refinance program, which is an effort to get banks and owners of loans to write down principal on their own nickel, so these are not taxpayer costs for writing down those mortgages, these are private costs to those who hold the mortgages. We have had three major servicers sign up just within the last few weeks for that effort. And just as it is beginning to expand, to cut it off now and stop the reduction in negative equity, which we think is one of the most significant barriers to housing recovery now, would be a real problem.

In addition, the Emergency Homeowner Loan Program targets borrowers who are unemployed through no fault of their own. The primary reason we see new foreclosures and new defaults today is because of unemployment. Yet the tens of thousands of borrowers who would benefit from the Emergency Homeowner Loan Program would be—we would not be able to help them without that funding.

So, all of those are important.

The last thing I would say is the Neighborhood Stabilization Program is one that has invested in communities that have been devastated by foreclosures. What we have seen already, where the program has been invested, we see reductions of as much as 50 or 75 percent in the vacancy rates in those neighborhoods. That means not only do we help families get into those homes, but their neighbors who have paid their mortgages, have done everything right, when they saw their property values declining precipitously because they had 5 or 10 foreclosures on their block, those families would not be helped as well to help those neighborhoods recover.

We have seen lots of private capital come in. When we start to fix up homes through the Neighborhood Stabilization Program, it sends ripple effects into the surrounding community with homes that get renovated with private capital as well. So all of those are effects that would be significant from the termination of these programs.

Mr. GREEN. Thank you, Mr. Chairman.

I owe you some time, and, of course, I am grateful.

Chairman BACHUS. Thank you. I did want the Secretary to give you a comprehensive answer to that, because I know that there is a concern about that issue. I probably wouldn't allow that much time again, but now the Secretary has answered, and I didn't want to chop it up. I have to applaud that answer. It was the most comprehensive answer that we have heard in a long time.

Secretary DONOVAN. I apologize.

Chairman BACHUS. No. I don't know whether you had that written and you read it, but it was, very, very comprehensive.

Mr. Schweikert?

Mr. SCHWEIKERT. Thank you, Mr. Chairman.

Mr. Secretary, you don't have to be that comprehensive on these.

What do you think the total liabilities, if we look at the FHA loan portfolio right now, where are we at?

Secretary DONOVAN. On a net balance sheet basis, the FHA fund, if we were to value it in a traditional way we would value a company or insurance fund, the latest estimates are that the value is just north of $30 billion. So that would mean our assets outweigh our liabilities by in the range of $32 billion.

Mr. SCHWEIKERT. Mr. Chairman, Mr. Secretary, internally when your team sets up the actuarial standards of what you should have set aside, what range should you be in?

Secretary DONOVAN. By Congress' standards, we are required to have a standard where we should be above 2 percent of our outstanding portfolio in the fund. So that is the standard that is set. And that is significantly higher than you would see in the private sector typically for what the standards are for capital with similar kinds of loans.

Mr. SCHWEIKERT. Mr. Secretary, is that 2 percent, or 2.5 percent?

Secretary DONOVAN. Two percent.

Mr. SCHWEIKERT. Two percent would be how much?

Secretary DONOVAN. I don't have it in front of me, the total assets.

Mr. SCHWEIKERT. But it would be dramatically greater?

Secretary DONOVAN. It would be higher than we currently hold in what we call our excess reserves. The $32 billion that I referred to is our total reserves. The portion that is so-called excess reserves above and beyond what we need to meet our predicted liabilities is in the range of about $7 billion today, and that is below the 2 percent standard at this point.

Mr. SCHWEIKERT. Mr. Chairman, Mr. Secretary, in that, let's call it the $32 billion in reserves, is that also encumbered by the number of units that have been foreclosed on that HUD is holding title to?

Secretary DONOVAN. That includes all the potential liabilities, not just current liabilities, but also expected projected losses on every loan that we have made to date.

Mr. SCHWEIKERT. You beat me to where we are going. You take all the fun out of it. How many units do you think you hold right now, Mr. Secretary?

Secretary DONOVAN. How many units of foreclosed?

Mr. SCHWEIKERT. Yes.

Secretary DONOVAN. It is in the tens of thousands. I bet if the smart folks behind me—give me 2 minutes, and I could get you the exact figure.

Mr. SCHWEIKERT. If anyone has a guess, just yell it out.

Secretary DONOVAN. I think it is in the 70,000 to 80,000 range.

Mr. SCHWEIKERT. Okay. As we keep talking about housing policy and some of the mechanics, let's just say it is 70,000 single-family or condo units that you are holding right now that you are marketing, that you are selling. How does that fit into some of your other housing policies? Is it just you are going to sell them and refund, put the capital back in? What are you doing with those?

Secretary DONOVAN. Typically, what we do is market those and sell them at market price. There are targeted neighborhoods that are particularly distressed where the prices that we would get typically don't support rehabilitating and keeping those properties in decent condition. So there are targeted examples where we would discount those prices in order to get a commitment from, whether it is a private sector group or a public sector group, a nonprofit group to fix up that house and to sell it say maybe to a first-time home buyer or in a way that contributes to a revitalization of that neighborhood.

Mr. SCHWEIKERT. Mr. Secretary, in that context, I would also encourage you to consider even just a speculator or a family who gets together and is willing to spend money and fix it up because it provides cash at the local Home Depot and jobs and those things but also fix up that vacant house that sits next door to you for sometimes months and months, sometimes a year. If you are holding 70,000 housing units, one of my great concerns, being from the Phoenix area—and I know that is one of the areas you hold a lot of product in—is as long as those houses are on the market, my market never comes back. We have to consume a big portion of this inventory.

Does that at least fit into your policy of pushing this dead inventory through?

Secretary DONOVAN. Yes, it does. And particularly in targeted neighborhoods, as I talked about, where there have been a significant number of foreclosures. I will say that we actually don't hold a great deal of property through FHA in Arizona because frankly we continued to lend 30-year fixed-rate safe mortgage products during the housing bubble and our market share shrank to almost zero in States like Arizona, California, Nevada, and Florida. But this is where I think the Neighborhood Stabilization Program that we talked about before is so important.

The discussion tomorrow is about the third round of Neighborhood Stabilization funding. We have already obligated 100 percent of the first $6 billion that we had. We have the additional $1 billion which should be fully obligated by the end of the month, this month. That funding can go to help buy up and renovate vacant properties, foreclosed properties. And we particularly targeted it in the third round to communities like Arizona where they have been particularly hard hit by the crisis.

Mr. SCHWEIKERT. Thank you, Mr. Chairman. Sorry to go over the time.

Chairman BACHUS. Thank you, Mr. Schweikert. Mr. Secretary, we have several very talented members in the freshman class on both sides of the aisle. Mr. Schweikert, Ms. Hayworth, you have heard from them; they are very thoughtful. And Mr. Carney on the other side is now recognized, another one of our thoughtful distinguished freshmen.

Mr. CARNEY. Thank you, Mr. Chairman. And thank you for your agreement to yield me some time. Mr. Secretary, thanks for coming up today. Thanks for your leadership there at HUD. I have been very impressed by your work, great work, trying to do a very difficult job in meeting the President's budget cuts.

I have two questions. First, you gave a very comprehensive answer to Mr. Green on foreclosure mitigation efforts. Is there anything that you left out? And second, can you characterize that, the homeowners you are able to touch in terms of the total universe of people affected and at risk?

Secretary DONOVAN. Let me be honest, Congressman. I think it is fair to say that we have not reached as many people as we would have liked to with those efforts. We have reached more than I think we get credit for, to be frank, but not as many as we would have liked. We have about almost 600,000 permanent modifications in the HAMP program at this point. One thing that is often missed is that is only one piece of the overall efforts. And in addition to that, we have about 700,000 homeowners who have been able to stay in their homes thanks to loss mitigation work we do at FHA, which is separate from the HAMP program.

Mr. CARNEY. Is there something you would do differently?

Secretary DONOVAN. One more thing I would add. One of the things that I think HAMP did effectively was we targeted a fairly narrow group of homeowners in the sense that we said, you have to have a mortgage payment that is more than you can afford on your current budget. And we only limit it to those who live in their homes, other steps like that. But we did encourage private modifications with no tax cost to the taxpayer that now total over 2 million modifications. Before the HAMP program, on average, those were actually increasing payments to homeowners, not decreasing them. Increasing them on average. And now that has changed dramatically where we have really standardized the process through HAMP where we see a significant reduction in payments to the average private modification.

We have made a lot of the changes that I think have begun to help this. We now see 75 percent of those who come into trial modifications under HAMP actually get a permanent modification because of the changes we have made. So there are significant improvements. I think we are still concerned with the servicers, the level of service they are providing, the number of people they have doing this. Is it enough? There have been improvements, but we have to go farther on that and demand more from them.

Mr. CARNEY. This may be an unfair question. We had your colleague, the Treasury Secretary, in this morning talking about Fannie Mae and Freddie Mac. Were you part of the discussions to develop that?

Secretary DONOVAN. Very much so. It was a joint HUD-Treasury effort.

Mr. CARNEY. What is your view? We had a lot of angst about the effect on low- and moderate-income homeowners; what is your view of the various options? Full privatization is Option No. 3, which I guess creates an explicit guarantee with a limited government role. Any of them have a more limited government role, but HUD is going to have a big role. What is your view of that and does your budget anticipate that role?

Secretary DONOVAN. Certainly, there are two critical things I would say there. One is, we need to have reform. I think we can all agree that the prior system was fundamentally broken and that it needs to be fixed. The second thing I would say that is important—more directly to your question—is that under all of the three options that we propose, we believe FHA should continue to be an important part of the market, and that in that sense, an explicit targeted guarantee from the Federal Government must be part of the new system through FHA.

Mr. CARNEY. So that would be Option 3?

Secretary DONOVAN. Actually even under Option 1, we are saying FHA should continue. So HUD should continue to have a role in the market. And then the question really is in the three options beyond FHA, what additional guarantee should we have?

But we also believe that FHA's role needs to step back. Traditionally, we have been in the range of 10 to 15 percent of the market. We are now over 20 percent. And if you add in VA and USDA, we are close to 30 percent of the market. So one of the things that we have done in the budget that is critical is to increase the mortgage insurance premium by 25 basis points for FHA. Not only will that bring in an additional $2 billion of revenue next year that helps to strengthen our reserves, to go to the Congressman's question before, to build up our reserves again to the level they need to be, but it also will help to allow us to start to step back as private capital comes back in with mortgage insurers and others that can provide the kind of protection that FHA does currently.

Mr. CARNEY. Thank you, Mr. Secretary. Keep up the good work. Thank you, Madam Chairwoman.

Mrs. BIGGERT. [presiding] The gentleman from Ohio, Mr. Stivers, is recognized for 5 minutes.

Mr. STIVERS. Thank you very much. I would like to follow up on the HAMP program a little bit if we could. I have read some statistics from the Federal Reserve, some research that said 30 percent of seriously delinquent loans were eligible for the HAMP program. And of those, only 24 percent went on trial or permanent. So that is about call it 7, 7.5 percent of the eligible loans ultimately went through the HAMP program. And then of those, about 10 percent were on a serious delinquency within about 6 months.

What is wrong here? Why isn't the program working? And what did you do to fix it? You said earlier that you have done some things to fix it. Can you help me understand? Walk me through that.

Secretary DONOVAN. As I said before, I think there is no question that we haven't been satisfied that we have reached as many people as we would have liked. And so that is part of the equation here. I would point out that it is a different thing to say we haven't reached as many people as we would have liked to, as opposed to, we should end the program. Because there still are tens of thousands of homeowners who get modifications each month under the program. The primary reasons why people have not qualified for HAMP have been, first of all, that we don't allow investor owners. You have to have an unaffordable mortgage payment. In other words, your current payment has to be more than 31 percent of your income. Those are two key things that have—

Mr. STIVERS. Yes. I guess I am concerned about the ones that have gone through. A lot of them are continuing to become delinquent afterwards. So is the program really working?

Secretary DONOVAN. On that point, just to be clear, over 50 percent of those who didn't qualify in the first place for a trial modification get private modifications or become current on their mortgages. Only 10 or 15 percent actually end up in foreclosure.

Mr. STIVERS. That is where I was going to go next.

Secretary DONOVAN. I don't think it is accurate to assume that those folks aren't getting help. And then again, over 50 percent of those who get a trial modification but don't qualify for a permanent modification get some other form of modification or become current. And those who do qualify for a permanent modification, our numbers right now are that 85 percent of them are successful after a year. And so we would like to reach more people. We are trying to do that. But those who do get help are quite successful and we have set a standard that means, even if you don't qualify for a HAMP mod, you often can get help—on average, people do get help with other kinds of modifications.

Mr. STIVERS. Sure. And I guess that gets to my next question. Because if 2 million homeowners got help without the HAMP program and 600,000 got help with the HAMP program, how many of those 600,000 would have gotten help without the HAMP program in addition to the 2 million who received the help but didn't qualify for the HAMP program? I guess I am trying to understand the difference between what would happen with or without the program.

Secretary DONOVAN. Each time we have a modification, we run a net present value kind of model for them. And so what we have seen is that the servicers are clearly willing with the incentives that we have provided in HAMP to reach a set of borrowers that they wouldn't reach otherwise. I don't think there is any data that we could provide that would show that every single one of those would not have been helped, but it is clear that there are a significant number of those who would not have gotten assistance otherwise. And I think most importantly, that they got a modification that makes it much more likely that they succeed in the long run because of the standards that would be set.

Mr. STIVERS. That is where I want to go next, and I am running out of time, so I want to try to run through this.

So of the 2 million modifications that have happened in the private market without the HAMP program, what is the success rate there versus—you say you have an 85 percent success rate after a year?

Secretary DONOVAN. We see a typically 20 percent or higher increase in the failure rate in those modifications. So the data is changing over time. Success rates are getting better as the private sector is modeling more on HAMP. But typically what we see is lifetime default rates now of 50 to 60 percent. The default rate I talk about is a 12-month default rate. So we are presuming that continues to go up somewhat over the lifetime of those loans but we still expect it to be 20, 30 percent higher over time.

Mrs. BIGGERT. The gentleman's time has expired. The gentlelady from California, Ms. Waters.

Ms. WATERS. Thank you very much. Mr. Secretary, I would like to thank you for coming. I really had intended to talk about the Community Development Block Grants and the public housing capital fund that is going to be cut by my friends on the opposite side of the aisle, and I wanted to talk about how it is going to impact communities all over this country. But once you start talking about servicers, I have a lot of thoughts about that and the HAMP program. Let me just say that I really respect the work that you do.

Secretary DONOVAN. Thank you.

Ms. WATERS. And the experience that you brought to the job. I know that left on your own, you probably could do a lot more things. But I know a lot of things come into play as you try and solve these difficult problems. And this whole role of servicers is one of those areas that we should all continue to be concerned about. Now I understand that some of you—meaning some people in the Administration and perhaps you—have been involved in some negotiations with the servicers. Is that still going on?

Secretary DONOVAN. That is correct. And that is still going on.

Ms. WATERS. And I guess if it is still going on, it is not like you can tell me while you are in negotiations, is that right?

Secretary DONOVAN. These are enforcement actions that we are undertaking, 11 different Federal agencies along with the 50 State attorneys general. So I am not at liberty to discuss the details. That is correct.

Ms. WATERS. Let me just mention that the movie, "Inside Job" that received an Academy Award on Sunday, one of the things that the director said was that nobody has gone to jail after all of the fraud that has been uncovered. I am really worried about the servicers. And I believe that if there are weaknesses in the HAMP program—and there are, really, it is a voluntary program, and they don't have to comply. They do what they want to do. And it seems to me that there has been no way to enforce what the Administration would like to enforce in the HAMP program. That is why the weaknesses are now being identified as reasons to get rid of HAMP.

Now, I don't agree with my colleagues on the opposite side of the aisle that we should get rid of HAMP and NSP and the Unemployed Homeowners Assistance Program. We worked very hard for these programs and they service people all over America in our small towns, our cities, our suburban areas, all of that. And one reason I disagree with them on these cuts is that they don't have anything better. They don't have anything to replace it. And I know they are not saying they don't give a darn, that they don't care about these homeowners who are losing their homes, they don't care about these communities where people are losing value because you have boarded-up properties that are not getting renovated except for what we are doing with NSP.

So I guess what I really want to know is this, leaving aside whatever you are negotiating with the servicers, when are we going to set some standards? When are we going to talk about principal write-down? We are not going to get loan modifications really working in the way that we want until we start to talk about principal write-down and some other kinds of things. So I guess without going into the negotiations, tell me where you think we could be tougher, where we would be more effective.

Secretary DONOVAN. Given that I don't have criminal authority, I won't go into a part of your question. Let me say this just on the settlement, on the discussions that we are having around the enforcement that I talked about. What I can say is this, it is clear that servicers expect homeowners to live up to their responsibilities in paying their mortgages.

Ms. WATERS. Excuse me.

Secretary DONOVAN. We should demand exactly the same thing from the servicers, that they live up to their responsibilities in providing homeowners alternatives to keep them in their homes and to meeting the requirements they have under servicing those—

Ms. WATERS. Mr. Secretary, I hate to interrupt you. But when you say the servicers expect the homeowners to live up to their responsibilities, I have to remind everybody that these millions of homeowners who are faced with foreclosures didn't all of a sudden just become bad people in America who don't pay their bills. Something happened. And the something that happened was, the products that were put on the market that we, in our oversight responsibility, failed to do anything about. These no-doc loans, these resets of people who were lured into loans that they could not afford and did not understand, on and on and on. So many people cannot live up to the responsibilities of the mortgage that they signed on to because it was fraudulent to begin with. And so I get really upset when I hear that.

Secretary DONOVAN. Congresswoman, I thought I was agreeing with you that the servicers need to live up to their responsibilities. And that was my fundamental point. I completely agree that we had mortgage products in this country that nobody should ever have been able to provide.

Mrs. BIGGERT. The gentlelady's time has expired. The gentleman from North Carolina, Mr. McHenry.

Mr. MCHENRY. I thank the Chair. Thank you, Mr. Secretary, for your testimony.

I am reading numerous press reports and getting word from various folks around town about the ongoing settlement discussions that my colleague referenced in her questions. In light of the robo-signing and the servicers issues, can you shed any light on these discussions?

Secretary DONOVAN. What I can say at this point, given the nature of the discussions, is that our aim in these discussions is to hold servicers accountable for mistakes that they have made and to ensure that they live up to their responsibilities under Federal requirements, whether it is in the FHA lending program or the regulatory responsibilities that they have.

Mr. MCHENRY. When you say "our," is that HUD or is that FHA?

Secretary DONOVAN. There are 11 different Federal agencies involved. Because FHA is a part of HUD, HUD is directly involved. But there are 10 other Federal agencies along with 50 State attorneys general who have authority.

Mr. MCHENRY. Who is taking the lead within the Administration?

Secretary DONOVAN. We are working very closely with the Department of Justice and with Treasury to jointly lead the Administration's efforts. We are coordinating with the banking regulators that are independent.

Mr. MCHENRY. Okay. Is there a lead institution here?

Secretary DONOVAN. In the direct discussions with the servicers, I would say the Department of Justice has that lead authority, and in coordinating with the State attorneys general.

Mr. MCHENRY. Okay. There are also reports that Elizabeth Warren, who is apparently, whatever her title is, now with the Consumer Financial Protection Bureau (CFPB), I guess advisor—that she is taking a lead. That is not your understanding?

Secretary DONOVAN. That is not correct.

Mr. MCHENRY. That is not correct. Okay. But the CFPB is engaged in these discussions as well? As one of the 11 regulatory bodies?

Secretary DONOVAN. At this point, CFPB is part of Treasury. As I said, Treasury is involved in the discussions.

Mr. MCHENRY. So is that CFPB or is it others in Treasury?

Secretary DONOVAN. There are a number of people from Treasury who are involved in the discussions.

Mr. MCHENRY. Okay. We are just trying to get an understanding of it. There are 435 of us in the House and 100 in the Senate who are elected to represent the people and we have ongoing settlements. Some have talked in the $30 billion range. And so we want to have some understanding of what the ramifications are.

Have there been discussions about what that settlement money would be put towards?

Secretary DONOVAN. There have been discussions. As I said earlier, given the nature of the discussions, enforcement actions that are pending, I am not at liberty to discuss the details of it.

Mr. MCHENRY. No, no, no. All the press reports we have seen and the reports that I have gotten, what you use the money towards, this isn't something secret. We have heard that it is principal reduction. Is that not true?

Secretary DONOVAN. Congressman, given the nature of the enforcement actions that are at issue here, I am not prepared to discuss the details of it today.

Mr. MCHENRY. Two weeks ago before this very committee, Mr. Stevens, who heads the FHA, I asked him exactly this same set of questions about this, and he was far more forthcoming with this committee about that, those settlements and even the discussion about the range of options about what they would use the money for. Could you at least discuss the range of options that this settlement money would be used for?

Secretary DONOVAN. Commissioner Stevens has been involved in those discussions. There have been a number of possible options discussed. I don't want to give you the impression somehow that we have settled on a particular course at this point, particularly given that the State attorneys general are involved as well and we have not settled on or decided any of those direct—

Mr. MCHENRY. Do you foresee coming back to Congress for authorization to spend these funds? Yes or no?

Secretary DONOVAN. These are enforcement actions that are done under existing statutory authority.

Mr. MCHENRY. So that would be "no?"

Secretary DONOVAN. There is no requirement that I know of that we get approval for these discussions.

Mr. MCHENRY. Even if you created a $20 billion to $30 billion fund, which is multiple times larger than the HAMP program, you don't foresee coming back to Congress in order to have for mortgage write-downs? Interesting.

Secretary DONOVAN. A large part of the authority here is State authority that the State attorneys general have. I think that is an important component of this, that the Federal authorities are only a piece of this and there is a significant share that is held by the State attorneys general.

Mr. MCHENRY. Okay. I appreciate your testimony. I know it is difficult to answer these questions. But my final question is, do you think the HAMP program has been a success or failure?

Mrs. BIGGERT. The gentleman's time has expired.

Mr. MCHENRY. If he can just answer, success or failure.

Mrs. BIGGERT. We are facing a vote, so we are really trying to limit the time.

The gentlewoman from New York, Ms. Velazquez.

Ms. VELAZQUEZ. Thank you, Madam Chairwoman. Thank you, Mr. Secretary, for being here and thank you for your leadership and your service.

This morning, Secretary Geithner spoke about the role of the GSEs in promoting affordable multifamily housing. The multifamily portfolio has been profitable compared to the single family portfolio. So what are some of the lessons learned from the GSEs on this matter that you can tell us? And what features of their multifamily model could we apply to any housing system?

Secretary DONOVAN. Congresswoman, it is a very important question because I think one of the things we often miss in the discussion about the GSEs is that there is a significant difference between single family finance and multifamily finance. And in fact not only, as Congressman Frank said earlier, has the multifamily been profitable, and as you said as well, but there is also oftentimes more need for involvement in multifamily because the types of transactions are so much more varied, there is less standardization. So if we are going to access securitization as a way of improving interest rates and increasing the affordability of housing, oftentimes a guarantee is more necessary there.

I think one of the things that has been particularly important in the model that the GSEs have developed that could be applied going forward is a risk-sharing model. One of the things that I think is important in this debate is that FHA's model has traditionally been a 100 percent insurance model. So in some ways, taxpayers can be put at risk in ways that they are not under the model that the GSEs pursued on the multifamily side. And I think it is worth—and certainly in the White Paper, we lay this out—that we look at risk sharing as a potential alternative, whether for FHA or for some other guarantee in the future.

Ms. VELAZQUEZ. Very good. Thank you. Secretary, your agency's Fiscal Year 2012 budget proposes taking $1 billion of public housing authority's reserve fund from the housing operating account. Will our housing authorities have sufficient funds for any contingency with the reserves reduced so much? And would you tell us what will be an appropriate level?

Secretary DONOVAN. Thank you for asking the question. This was one of the difficult choices that we had to make in putting the budget together this year. We have seen reserves at housing authorities for their operating funds increase substantially over the last couple of years by over $1 billion. And the proposal would be to draw down on excess reserves in a targeted way—not at every housing authority but at housing authorities that have excess reserves, but to leave them with an adequate level of reserves to be able to continue operating. We obviously would need to work with them to understand whether there are commitments that they have made in those reserves to ensure that we are doing this in the right way. And we realize this is a new proposal. But given the fiscal realities, we felt that this was a better, more targeted way to fully fund the needs of operating public housing this year. And it is similar to what we have done in the past with the voucher program where we have drawn excess reserves to fund new vouchers.

Ms. VELAZQUEZ. So are you telling us that this does not represent a shift in public policy?

Secretary DONOVAN. It is a shift. It is something that we are proposing for the first time this year. We do have a model from the voucher side where we have used excess reserves before to fund the needs of the program. And it is something obviously, given that it is new, we would need to have a significant discussion with the committee about along with the Appropriations Committee and to make decisions as we formulate the 2012 budget.

Ms. VELAZQUEZ. Is it expected that the foreclosure rates will rise in the coming months as foreclosure moratoriums come to an end?

Secretary DONOVAN. I think it is likely that we will see the number of completed foreclosures rise again. Just to be clear, the number of people entering foreclosure was down about 20 to 30 percent year over year before the robo-signing problem emerged and there was an even further reduction, another 20 percent reduction in the number of foreclosures that were being completed at that point and the number of people entering foreclosure. So I think while we may see it rise somewhat in the coming months, the overall trend has been down. And I think that is a significant part because of the more than 4 million modifications we have seen relative to just 1.7 million completed foreclosures.

Mrs. BIGGERT. The gentlelady's time has expired.

We have time for one more question before we go vote. We have three votes. How many people would like to come back?

Mr. SCOTT. I would like to, but I don't want to be the only one.

Mrs. BIGGERT. The gentleman from Pennsylvania.

Mr. FITZPATRICK. Thank you, Madam Chairwoman. Mr. Secretary, are the administrators of the Section 8 vouchers held accountable through annual performance evaluations, performance measures? And if so, and I hope so, what happens when an administrator fails to meet the objectives? I have a a quick follow-up question that has to do with the City of Philadelphia Housing Authority.

Secretary DONOVAN. We do have performance standards that housing authorities are required to meet under the voucher program as well as the public housing program. More than 95 percent of all housing authorities meet those standards. We do have a subset—Philadelphia as an example—where we designate them as what we call troubled housing authorities. But absolutely, there are performance standards. In addition to that, we have implemented a new set of standards and data that we collect. I run every month HUD stat meetings at HUD where we look at realtime data on the performance of housing authorities. We are also, through this budget proposal, increasing investment in technology through our Transformation Initiative which will allow us to hold housing authorities better accountable in realtime because of enhanced data.

So we do have those in place, but I think we can agree that we should strengthen them and that we are strengthening them.

Mr. FITZPATRICK. In connection with the Philadelphia Housing Authority, since the former executive director Carl Green was fired in September, a lot of questionable spending has come to light, including Karaoke, yodelers, belly dancers, thousands in outside lobbying and outside legal fees. Now just this past weekend, I realize that you have called on the PHA board to resign. The problems with the Philadelphia Housing Authority seem to have been systemic for some time. The city controller of Philadelphia said on Saturday that HUD failed to catch the spending in its audits. Senator

Grassley is also following this issue closely and also said this weekend that he hopes that HUD is finally paying attention to the situation in Philadelphia. Even your agency admitted this weekend that everyone could have done a better job.

So my question is, why were these problems at the Philadelphia Housing Authority not caught sooner by HUD? And what measures are you putting in place to make sure that doesn't happen again?

Secretary DONOVAN. Clearly, there are things that we can do to step up our focus on troubled housing authorities and to make sure not just that we are taking substantial actions when these issues come to light, which we have done here. We have cut off their excessive spending on outside legal counsel. We brought in a very experienced executive director to take over the housing authority and, as you rightly point out, did call for the board to step down. We will be working with the inspector general and a forensic auditor that we brought in who came to Philadelphia on Friday to make sure we get to the bottom of this. But we also have to catch these problems more before they happen, and that is why enhancing our data systems is important.

The other thing that we are doing is setting up a dedicated team using Transformation Initiative funding that we got in our budget last year and that we are proposing to continue next year that would allow us to target people to these problems, look at the financial data more systematically from the systems that we are building, and to send in those teams earlier on the ground where we have early signs of financial or other management problems on the ground.

So those are issues I would be happy to detail more to you in specifics, but that is an outline of a number of things we are doing to step up our oversight.

Mr. FITZPATRICK. Thank you.

Mrs. BIGGERT. Thank you. The gentleman yields back. We will recess for a time to go vote. We have three votes, so if members would come back as soon as possible to respect the Secretary's time. He has graciously said he will stay.

Secretary DONOVAN. Thank you.

Mrs. BIGGERT. We stand in recess.

[recess]

Mrs. BIGGERT. The committee will be in order. We will resume. And the gentleman from Georgia, Mr. Scott, is recognized for 5 minutes.

Mr. SCOTT. Thank you very much. Mr. Secretary, thank you so much for coming again. I just want to take a moment to thank you for your participation with our upcoming event in Atlanta to deal with these home foreclosures—as you know, it is just huge in the Georgia area—and the work that you have done in working with us. As I spoke with to the Secretary of the Treasury, Mr. Geithner, this morning, I am very worried in this rush for what we truly need to do in a more deliberative manner in cutting the Federal budget and moving, where we have to do it. I have no problem with that. But I think that we are creating some unintended consequences in many of the programs that I think are disproportionately being examined.

Last week, we passed a CR. And in that CR, there was a 62 percent cut in the Community Development Block Grants. I think that one of the things, as I said in my opening remarks, is that I think there needs to be more of a cry, more of an outpouring of what these programs are doing. And many people who feel they have come up here just to cut out government. There are people who don't want any government. But there is a reason for government. Just saying, get it out of the way and let the private sector come in, is not going to solve this. The private sector is not out there finding homes and housing for the elderly, for those who are disabled, for those on fixed incomes, for those with low incomes, for those who are unemployed, for the very people that the Department of Housing and Urban Development was created for. There is a reason for all of this. And unless we are going to find something that can help to fill in this gap, I think we are doing the American people a disservice.

I am reminded of the evolving appreciation now for the labor unions and collective bargaining in terms of what is happening in Wisconsin, for example. Once the American people are educated and understand that there is some hurt here, unintended consequences, we become aware.

So now that I made that point, my State of Georgia is number five in home foreclosures. It is number four in homelessness. It is number three in unemployment at 10.2 percent. And when you look particularly into the African-American male community, it is hovering at 22 percent. Many of these programs that you are working with, the Affordable Rental Program, the HOME Program, the CDBGs, all of these that are being cut are basically designed to kind of serve these. Now we have veterans coming in, many of whom fought in Iraq and in Afghanistan, and they are homeless.

So my point is, there is a need for government here, and there is a need for us to, as we are examining the Federal budget and looking at it, let's not be so hasty to rush to cut some very vital programs that could put the very vulnerable out there. And I believe that HUD has a great responsibility here to help sound the alarm and maybe say, whoa, do you know what you are doing here? Do you know what a 62 percent reduction in the Community Development Block Grants will do? And I wanted to ask you to react to that. Just that one fact alone.

You all have offered a 7.5 percent reduction. That is a big drop from what was passed by this Congress last year. What would that do? How devastating would that be to your programs?

Secretary DONOVAN. Congressman, first of all, let me make a point broadly about this budget. I said in my testimony that we had difficult decisions that we had to make, cuts that, as the President himself has said, that he would not have made if we were in different fiscal times. But what we have proposed in the 2012 budget is the lowest level of non-security discretionary spending since President Eisenhower. When you look at it as a percentage of the overall economy, the lowest level since President Eisenhower. So we think we have proposed a responsible budget and to do that had to propose cuts that were painful. Going beyond that, as the President said in the State of the Union trying to balance the budget on the backs of the most vulnerable is not something that we could support. And that is something that I think we do risk if we go too far with some of these cuts.

One of the things that many people don't recognize, they think we have had a lot of foreclosures in the country. They have seen vacancy rates increase in rental housing, rents go down at the top of the rental market. But in fact, we just released the worst-case housing needs study for 2007 through 2009. It showed the single largest increase in worst-case housing needs in the history of the study, a 20 percent increase in worst-case housing needs among the low income. So the need for these programs has only increased during the recession. And that is why we focused on ensuring we continue to provide assistance to the most needy in the budget.

Mr. SCOTT. And that is why, if I may just now conclude, Madam Chairwoman, that is why I think that there needs to be a clarion call to help educate the American people on the consequences. There are some unintended consequences. Do we mean to put the elderly out? Those on fixed incomes. Those that we are to serve? Veterans who have come back from the war and have no home and they are homeless? These programs, particularly your HOME Program, have you made an assessment on just how many people will be eliminated from this program? Will we be exacerbating the homeless rate by some of these drastic matters?

Secretary DONOVAN. We do have information. I see that the time is up. I would be happy to follow up with you directly on those specific impacts.

Mr. SCOTT. Thank you, sir.

Chairman BACHUS. The gentleman from California, Mr. Miller, is recognized for 5 minutes.

Mr. MILLER OF CALIFORNIA. Welcome, Secretary Donovan. There has been talk about basically rolling the GSEs and FHA back out of the marketplace, specifically in high-cost areas, which in California and other States is going to have a huge, huge negative hit. I guess my question is, from all the studies I have seen, it seems like those loans are performing very well, the new loans we are making out there today. Yet, I don't see a private sector capable or ready to move in and backfill the place of the GSEs or FHA if you do pull back out of the market. And based on everything I have seen, they are filling the gap that they were intended to fill, and you are too. Do you think now is the appropriate time to start rolling back when there is no evidence that the loans you are making are not high-quality loans?

Secretary DONOVAN. Congressman, as you know, unless Congress takes other action, on October 1st, the loan limits would step back from a high—at least in the highest-cost communities of about $729,000 down to $625,000. So in our housing finance reform proposal, we did say that we think Congress ought to let that expire as it would under current law.

Mr. MILLER OF CALIFORNIA. Why would you say that? If they are performing well, why would you say that?

Secretary DONOVAN. We do believe that it is important—and specifically speaking about FHA here—that we start to step back to our more traditional role of serving a smaller segment of the market. And from what we have seen—and I agree with you that the market is fragile, it is why we need to take all these steps carefully. We do see capital increasingly returning to the jumbo market. We have seen particularly, for example, as we have announced the premium increase that we did for FHA, increasing interest from the private mortgage insurers. So we do believe that we can do this carefully and responsibly in a way that private capital will step back up. We have seen indications of that in the securitization market and elsewhere in the jumbo market.

But I agree with you, we have to watch this very carefully to ensure that we are not taking steps that could hurt what is a very fragile market at this point. So we believe that the step down of the loan limits is something that the market can absorb, and particularly in FHA, where those loans, the loans above the $625,000 and below the $729,000, make up a very small share of our overall business that we are doing today.

Mr. MILLER OF CALIFORNIA. But you are going to take your portion out and the recommendations to get the GSEs out of the high-cost areas also. You are talking about the capital marketplace. I am not finding anybody else seeing it. The REALTORS® aren't seeing it. Builders aren't seeing it. Homeowners we are talking to aren't seeing it. The only loans that are available out there, based on everything we are seeing between the GSEs and FHA, you are 92 percent of the marketplace. So if there is a private sector backfill, you wouldn't be 92 percent of the marketplace. It would be significantly less than that. You would see a decreasing number as the private sector rolled into the marketplace. We don't see that number decreasing, I guess is the problem. And you are sending a message to Congress from FHA and the comments of Freddie and Fannie that they can be rolled back.

But the problem I have always had with a system, for example is, let's take the GSE for example. You might have a limit of $429,000, yet in an area where the median home price is $150,000, they can borrow $429,000. Yet nobody in our districts can borrow a dime because that is so far below the median. From 2000 to 2005, FHA loans went from 99 to 1. So in 2005, one in our area. And you go back to the old traditional marketplace you are in, there will be no FHA loans in the marketplace. My concern is—I am not borrowing from FHA so it doesn't matter—but you are looking at a marketplace that is very stressed at this point in time. I don't think it would take a lot to have it start going in the other direction. And I am afraid that we are moving too proactively in the vein of pulling back and not considering the consequences that might occur if the private sector marketplace is not back there to fill the backfill of it. And if we let you move back, we don't authorize the dollar amount, you are out of it. There is nothing you can do. What will you do then?

Secretary DONOVAN. Again, Congressman, the step that we are talking about is not to go back to the old FHA limits October 1st. It is simply to go to the HERA limits down to the $625,000. And within FHA, the portion of our lending that is between $625,000 and $729,000, even in California, it makes up a very small share of the lending that we are doing. But again, we are very cognizant, and I know Secretary Geithner was this morning when he testified, that we have to take these steps carefully. We need to see how the market develops, and we need to ensure that we are not taking steps that hurt them more or less.

Mr. MILLER OF CALIFORNIA. And I want to encourage you to send that message to Congress because it is not getting through, that you are not talking about pulling out, you are talking about phasing down slowly from $729,000 to $625,000, test the market and then go from there. I don't have a problem with that. But the debate is occurring around pulling out completely, getting GSEs out completely, completely getting out of high-cost areas, and that would devastate some of the States that need it.

Mrs. BIGGERT. The gentleman's time has expired. The gentleman from California, Mr. Sherman, is recognized for 5 minutes.

Mr. SHERMAN. Thank you. I will pick up where the wise gentleman from California left off.

When you say your position is to let it drop to $625,000, is that a position with regard only to FHA or Fannie and Freddie as well?

Secretary DONOVAN. Under current law—

Mr. SHERMAN. I know what current law does.

Secretary DONOVAN. —step back for the GSEs as well as FHA, and we support allowing that to step down across-the-board.

Mr. SHERMAN. That would have an absolutely devastating effect not only on the $900,000 and $800,000 homes in the Los Angeles area, but the $400,000 and $500,000 homes that are more in parts of my district than Gary's because if you see a $100,000 drop, as you would in home sale prices south of Ventura Boulevard, then those north of Ventura Boulevard are going to drop commensurately and those a little further north are going to drop as well.

It is perhaps a good thing that the Administration doesn't have a vote in the decision that Congress needs to make between now and September 30th. As you point out, there is no real savings for the Federal Government that you can quantify in response to the gentleman from California's question. You seem to agree with him that these were low-risk, high-quality mortgages that FHA was guaranteeing or Fannie and Freddie were making and that it was a very small percentage of your overall portfolio. Do you have any proof that the Federal Government—do you have a score that says by letting this drop we decrease the Federal deficit?

Secretary DONOVAN. The primary reason we are focused on bringing FHA back to a more normal market share for FHA is the risk that we take on in the next potential recession.

Mr. SHERMAN. You can calculate that, but CBO is the referee on not only costs but risks; whether we are guaranteeing loans to Zimbabwe or to residents of Gary's district or we have a flood insurance program, we have CBO determining that. Is there any CBO score that says that dropping this and seeing a double-dip recession in Los Angeles and New York, if not the country as a whole, reduces the Federal deficit?

Secretary DONOVAN. If anything, for next year, it would likely shrink our market share somewhat and therefore result in fewer receipts in the short run.

Mr. SHERMAN. Again, the CBO scores things long term and short term. They are not the best referee, but they are the only referee we have here.

Mr. MILLER OF CALIFORNIA. Will the gentleman yield?

Mr. SHERMAN. Yes, I will.

Mr. MILLER OF CALIFORNIA. I want to clarify, my comments were specifically to a distressed market today. When the market starts to recover, none of us have a problem with the system modifying.

Mr. SHERMAN. I don't want to see a double-dip recession in the community we both represent.

Mr. MILLER OF CALIFORNIA. I don't either.

Mr. SHERMAN. But let me go on to the issue of private mortgage insurance. I don't want to see a world in which if you don't have 20 percent down, you can't buy a house. That means a third of Americans will never buy a house, and it also has the effect that I am concerned about, a depressing effect on home prices in the middle of a recession. And don't let the economists tell you that we are not in the middle of a recession.

So I think that private mortgage insurance has a role to play. When FHA insures the loan, then the taxpayers are 100 percent at risk. It is my understanding, typically with private mortgage insurance, I would say a 5 percent down or 10 percent down, you have the downpayment and then you have another 25 or 30 percent of private risk.

You are going to be defining the qualified residential mortgage, and the statute says that you need to look at data that indicates there is a lower risk of default if there is mortgage guarantee, and I hope in the next few minutes to give you some ideas as to how you and your fellow regulators would deal with that.

First, lower risk of default should mean lower risk of foreclosure, not lower risk of being 1 month behind on your payments. We have all been 1 month behind on our payments. And if you catch up, neither the lender nor the community is adversely affected in any way. In fact, the lender makes an extra couple hundred bucks. What we are trying to deal with here, the risks that we are trying to deal with, the risk retention idea is focused on default.

Mrs. BIGGERT. The gentleman's time has expired.

Mr. SHERMAN. I ask for another 30 seconds.

Mrs. BIGGERT. Thirty seconds.

Mr. SHERMAN. So I hope that you would do that.

And second, the overall purpose of this section is to make sure that the private sector has skin in the game because we really think the private sector is smarter, especially when they have skin in the game. When you have private mortgage insurance, the lender may not retain 5 percent of the risk but the private mortgage insurer, also a private sector entity with expertise, has 30 percent risk. So I hope you would help us make sure that we have private sector eyes with skin in the game but don't have to see 20 percent downpayments.

I yield back.

Secretary DONOVAN. Thanks for your comments.

Mrs. BIGGERT. Thank you. The vice chairman of the Insurance and Housing Subcommittee, Mr. Hurt, is recognized.

Mr. HURT. Thank you, Madam Chairwoman. Thank you, Mr. Secretary, for being here. I have some comments. And I hope you didn't cover these already in your statement. I apologize for not being here earlier. But I was just wondering about the total spending that is going to be spent on your program. It looks like to me from your remarks that the actual spending will be $47.8 billion but there is a credit of $6 billion that is deducted from that. So the total claim is $41.7 billion. And I am wondering, I think it is important to us who have to make the funding decisions, how much are we talking about actually spending? How much will your Department spend, not how much does it have coming in, in terms of the offsets and credits and that sort of thing? I would like to know how much you are actually going to spend.

Secretary DONOVAN. The $41.7 billion figure is the actual appropriated funds that would be from the taxpayer. And that is a 2.8 percent reduction from the appropriated amount that we used in 2010. So from a taxpayer point of view, that is the number to focus on and it is a 2.8 percent reduction.

Mr. HURT. Is that comparing apples to apples? Is that the same analysis or framework within which we would look at the 2010 spending levels?

Secretary DONOVAN. That is right.

Mr. HURT. All right. And my other question, and I just have one more related to the Housing Choice Voucher Program. Is it my understanding that the President has proposed a $1 billion increase in that program?

Secretary DONOVAN. That is correct. The reasons for that increase are primarily, we have a set of vouchers that were appropriated in earlier budgets, for example, VASH vouchers that serve veterans who are at risk or have fallen into homelessness. There were 10,000 new vouchers in 2010. Those then, to be renewed, come into the Section 8 account for the first time. So there is a set of new vouchers that have never been renewed before. There are also some vouchers that are new because we lose public housing units, we lose project-based Section 8 units and they are replaced by vouchers. So some of them, when there is an increase in a Section 8 account, there is an offsetting decrease in other accounts. And then the third reason is that costs go up to serve the same number of people each year because of inflation but also in the recession, as families' incomes have either stayed level or even declined, that causes the cost per person to increase over time.

So those are the three primary factors that lead to the increase. And again, our priority in this budget was to continue to serve the most vulnerable 54 percent of the residents of Section 8 who are either elderly or disabled. And so we made cuts in other parts of the budget to accommodate that billion dollar increase.

Mr. HURT. Are you able to report as to the net? Is it ultimately going to be more that is going to be spent?

Secretary DONOVAN. It is an increase.

Mr. HURT. Across the secretariat, as a consequence?

Secretary DONOVAN. It is an increase because we are proposing, for example, another 10,000 vouchers in VASH. There are other vouchers that we believe we should prioritize to continue to spend but have taken cuts in other areas to offset that.

Mr. HURT. Okay. So there will be expanded programs as a consequence and an expanded number of people who will be served?

Secretary DONOVAN. For example, 10,000 additional veterans that we would serve, yes.

Mr. HURT. That is all the questions I have. I yield back. Thank you.

Mrs. BIGGERT. I thank the gentleman. Without objection, I would ask unanimous consent to place the statements of the following organizations in the record: the National American Indian Housing Council; and HUD Housing Counseling Intermediaries.

I would like to thank the Secretary for being here and spending time with us so that everybody who was here got to ask their questions.

The Chair notes that some members may have additional questions for this witness which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to this witness and to place his responses in the record.

Again, thank you so much for your testimony, and we look forward to hearing from you again.

Secretary DONOVAN. I thank you, Chairwoman Biggert. I appreciate your hospitality here today. Thank you.

Mrs. BIGGERT. This hearing is adjourned.

[Whereupon, at 4:50 p.m., the hearing was adjourned.]

APPENDIX

March 1, 2011

I would like to thank Secretary Donovan for taking the time this afternoon to join us and I look forward to his comments as we discuss the 2012 fiscal year budget for the Department of Housing and Urban Development.

The seriousness of our nation's debt problem can no longer be overlooked. In order to ensure our children and grandchildren share the same economic opportunities of our generation we must begin to make tough choices to reign in the out of control spending in Washington. Our economic environment demands that programs across every agency be examined for inefficiencies and that those inefficiencies are eliminated. Just today, the Government Accountability Office released a study that indicates there is a duplicative effort on homelessness programs between the Department of Housing and Urban Development and the Department of Health and Human Services. These are the types of areas where we should focus on when streamlining the federal government.

The budget for Housing and Urban Development has grown by more than 50 percent from fiscal year 2004. Our responsibility to reduce spending only follows what families all across America have been forced to do for the last two years. Targeted cuts to programs that have failed to produce desired results will help to create jobs and grow the economy in the short and long term.

I look forward to working towards a HUD budget which implements smart and effective spending while eliminating wasteful programs. Thank you Chairman Bachus for holding this hearing and thank you to Secretary Donovan for your testimony.

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]

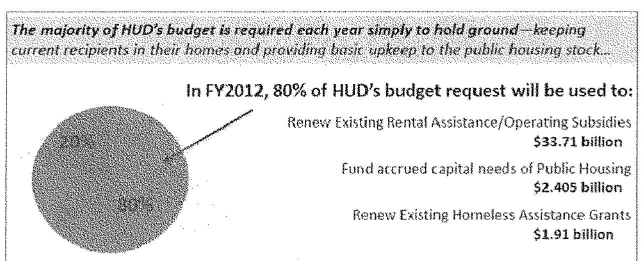
The Department is equally focused on assisting consumers throughout the homeownership process, from increasing their knowledge of the mortgage products they are considering to protecting them from fraud in any phase of that process. Accordingly, the budget also includes $168 million for housing and homeowner 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.

WRITTEN TESTIMONY OF HUD HOUSING COUNSELING INTERMEDIARIES

Hearing Before the U.S. House Committee on Financial Services

" Oversight of the Department of Housing and Urban Development (HUD)"

March 1, 2011

We, the undersigned U.S. Department of Housing and Urban Development (HUD) Housing Counseling Intermediaries, want to thank the committee chairman and ranking member for holding this important oversight hearing. We also want to take this opportunity to highlight, and express our support for, two programs in HUD's fiscal year 2012 budget proposal that have been especially successful in assisting the nation's struggling homeowners in the past: the National Foreclosure Mitigation Counseling Program (NFMC, administered by the Neighborhood Reinvestment Corporation, a/k/a NeighborWorks America), and the Housing Counseling Assistance Program (administered by HUD).

On behalf of consumers and homeowners across the nation, along with the thousands of housing counselors that our counseling agencies employ and the millions of families we assisted with comprehensive counseling and education services last year, we respectfully urge the members of this Committee to seek the support of their colleagues for the continued inclusion, in HUD's annual budget, of funding for both these critically important programs. Specifically, we believe that the following funding levels are appropriate to ensure the continued, successful delivery of services to the nation's current and prospective homeowners in fiscal year 2012:

- $88 million for the HUD Housing Counseling Assistance Program (an amount equal to the most recently enacted FY 2010 funding level and the President's fiscal year 2011 and fiscal year 2012 requests for the program); and
- $119 million for the National Foreclosure Mitigation Counseling Program (an amount representing the average of the two different funding levels recommended for the program by U.S. House and Senate appropriations leaders during last year's appropriations process).

HUD-approved housing counseling agencies have been on the front lines of the battle against foreclosure since the foreclosure crisis began. Our organizations are a lifeline to millions of families struggling to keep their home, and in many instances, the only place to which families can turn to navigate a complicated situation. Each of our organizations is committed to running the most efficient operation possible and our counselors are dedicated to helping households navigate the complex process necessary for sustainable homeownership. We educate potential homeowners on the responsibilities of homeownership, the importance of savings, and the need for responsible credit management. Housing counselors also help households avoid loan modification scams and other unscrupulous practices.

The increased demand for housing counseling and foreclosure mitigation services, coupled with shrinking resources, however, is making it harder and harder to serve all the current and potential homeowners in need. It is thus essential that we promote and support the pivotal and proven role housing counselors play in helping families achieve and sustain homeownership and secure housing tenure. Numerous recent academic evaluations confirm the value of pre-purchase homeownership counseling and post-purchase mortgage counseling. Nine independent studies have confirmed the positive impact of housing counseling on loan outcomes over time.[1]

To ensure the dream of homeownership is attainable and sustainable and to avoid another foreclosure crisis like the one we are in today, it is essential to have a comprehensive pre-purchase counseling and education strategy in this country. HUD's Housing Counseling Assistance Program provides much needed assistance to home buyers, homeowners and renters. Our member agencies' housing counselors have observed demand, on the part of prospective homebuyers, for information and counseling designed to identify the appropriate loan solutions and independent advice on buying and affordability. They also have observed high demand for non-delinquency, post-purchase education and counseling, as well as renter and homeless counseling for households, including some who are transitioning from foreclosures, and Reverse Mortgage (HECM) Counseling for seniors who have equity in their homes.

The HUD Housing Counseling Program collects extensive production and outcome data to measure the impact of the program. HUD-Approved Housing Counseling Agencies reportedly have accomplished the following since fiscal year 2009:

- Provided more than **4 million** families with individual housing counseling;
- Counseled more than **420,000** pre-purchase households, resulting in **185,000** who purchased homes or are homeownership-ready;
- Worked to prevent mortgage delinquency for **2.6 million** households, with nearly **834,000** avoiding foreclosure (and an **additional 554,000** in counseling at the time of reporting);
- Supported **413,000** with post purchase (non-foreclosure) services, **168,000** of whom refinanced or obtained reverse mortgages; and
- Assisted **more than 590,000** renters and homeless individuals to resolve tenant issues or find shelter.

We note that, if more homebuyers had received housing counseling, they might not have obtained loans they did not understand, at rates which they could not afford, which triggered many defaults in the foreclosure crisis.

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[1] Pre-purchase studies include: Hirad and Zorn. *A little knowledge is a good thing: empirical evidence of the effectiveness of pre-purchase counseling* (2002); Hartarska and Gonzalez-Vega. *Credit counseling and mortgage termination by low-income households* (2005, 2006); Quercia and Spader. *Does homeownership counseling affect the prepayment and default behavior of affordable mortgage borrowers?* (2008); Agarwal et al., *Do financial counseling mandates improve mortgage choice and performance?* (2009a, 2009b).
Post-purchase studies include: Collins. *Exploring the design of financial counseling for mortgage borrowers in default* (2007); Ding, Quercia and Ratcliffe. *Post-purchase counseling and default resolutions among low- and moderate-income borrowers* (2008); Quercia and Cowan. *Does homeownership counseling affect the prepayment and default behavior of affordable mortgage borrowers?* (2008).

In addition to the above program, the National Foreclosure Mitigation Counseling (NFMC) Program has been the most critical national resource in funding housing counseling for homeowners at risk of foreclosure. As the mortgage crisis has worsened, however, the level of resources committed to such housing counseling has not kept pace with demand.

By way of background, Congress established the NFMC Program in 2008, providing an initial $180 million appropriation to launch the first round of the program (under the Consolidated Appropriations Act for fiscal year 2008). Congress appropriated an additional $180 million for the second round of the program, but decreased funding to $65 million for each of rounds three and four of the program. Despite this substantial reduction in federal funding, the program has proved to be extremely successful in providing assistance to homeowners facing foreclosure. The NFMC Program has also rigorously evaluated its impact. An Urban Institute study on NFMC's effectiveness concluded that the program was successful in both helping homeowners cure an existing foreclosure and reducing the likelihood that counseled homeowners would fall back into foreclosure.[2]

- During the first two years of the program, counseled homeowners were 70% more likely to get out of foreclosure and avoid a foreclosure completion than if they had not received NFMC counseling.

- On average, NFMC clients who received loan modifications in the first program years reduced their monthly payments by $555; this is $267 more in reduction than if they had not received NFMC counseling.

- For clients counseled in 2008, NFMC counseling produced a 45% increase in the relative odds that a post-counseling modification would be sustained through 2009. The sustainability of modifications was greater than for homeowners without counseling because counseled homeowners received larger monthly payment reductions and counseling assistance with financial management.

- For clients counseled in 2008, the odds of making their loans current were 53% higher if they received this form of counseling. Counseling produced payment reductions and financial planning assistance that helped move people from serious delinquency or foreclosure to a sustained cure of their mortgages.

In closing, we want to thank the Committee for its past support of housing counseling and foreclosure mitigation programs that are successful in helping homebuyers and homeowners across the country during this unprecedented housing crisis. On behalf of our dedicated housing counselors and the millions of homeowners we serve each year, we urge Congress to recognize the value of our counseling work and support the key federal programs with a proven track record of success that enable us to help the nation's struggling homeowners.

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[2] Mayer, Neil, Peter A. Tatian, Kenneth Temkin, Charles A. Calhoun. 2010. *National Foreclosure Mitigation Counseling Evaluation: Preliminary Analysis of Program Effects September 2010 Update.* Washington, D.C.: The Urban Institute. Prepared for NeighborWorks® America.

Catholic Charities USA
Citizens' Housing and Planning Association
HomeFree-USA
Homeownership Preservation Foundation
Hope Enterprise Corporation
Housing Partnership Network
Mission of Peace National Corporation
Money Management International
National Coalition for Asian Pacific American Community Development
National Community Reinvestment Coalition
National Council of La Raza
National Council on Aging
National Federation of Community Development Credit Unions
National Foundation for Credit Counseling
National NeighborWorks Association
National Urban League
NID-Housing Counseling Agency
Nueva Esperanza
Rural Community Assistance Corporation
Seedco
Springboard Nonprofit Consumer Credit Management

PREPARED STATEMENT OF THE HONORABLE CHERYL A. CAUSLEY
CHAIRWOMAN, NATIONAL AMERICAN INDIAN HOUSING COUNCIL

TO THE UNITED STATES HOUSE OF REPRESENTATIVES

FINANCIAL SERVICES COMMITTEE OVERSIGHT HEARING

ON THE PRESIDENT'S FISCAL YEAR 2012 BUDGET REQUEST
FOR THE U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

MARCH 1, 2011

Introduction

Good morning Chairman Bachus, Ranking Member Frank, and distinguished members of the House Financial Services Committee. My name is Cheryl Causley and I am the Chairwoman of the National American Indian Housing Council (NAIHC), the only national tribal non-profit organization dedicated to advancing housing, physical infrastructure, and economic development in tribal communities in the United States. I am also the Executive Director of the Bay Mills Housing Authority and an enrolled member of the Bay Mills Indian Community. I want to thank the Committee for the opportunity to submit testimony regarding the President's FY2012 Budget Request to Congress.

At the outset, NAIHC would like to thank Secretary Donovan for his commitment to Indian Country, not only in the form of support for reasonable funding levels for tribal programs, but in the form of consistent outreach to tribal communities and his stated commitment to reaching out to other federal agencies, enhancing communication at the federal level so that tribes may best utilize and leverage their limited federal funds. We have enjoyed building our relationship with Secretary Donovan's office during the past year and a half and look forward to continued collaboration.

Background on the National American Indian Housing Council (NAIHC)

The NAIHC was founded in 1974 and has, for 37 years, served its members by providing valuable training and technical assistance (T&TA) to all tribes and tribal housing entities; providing information to Congress regarding the issues and challenges that tribes face in terms of housing, infrastructure, and community and economic development; and working with key federal agencies in an attempt to address such issues and meet such challenges. The membership of NAIHC is expansive, comprised of approximately 271 members representing 463[1] tribes and tribal housing organizations. The primary goal of NAIHC is to support tribal housing entities in their efforts to provide safe, quality, affordable, and culturally relevant housing to native people.

Brief Summary of the Problems Regarding Housing in Indian Country

While the country has been experiencing an economic downturn in general, this trend is greatly magnified in tribal communities. The national unemployment rate has risen and has hopefully passed its peak at an alarming rate of nearly 10 %;[2] however, that rate does not compare to the unemployment rates in Indian Country, which average 49 %.[3] The highest unemployment rates are on the Plains reservations, where the **average** rate is 77 %.[4] Because of the remote locations of many reservations, there is a lack of basic infrastructure and economic development opportunities are difficult to identify and pursue. As a result, the poverty rate in Indian Country is exceedingly high at 25.3 %, nearly three times the national average.[5] There is no question that tribal members are among the nation's most vulnerable citizens.

The above-stated employment and economic development challenges exacerbate the housing situation in Indian Country. Our first Americans face some of the most deplorable housing and living conditions in the country, and the availability of affordable, adequate, safe housing in Indian Country falls far below that of the general U.S. population. Consider the following:

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[1] There are approximately 565 federally-recognized Indian tribes and Alaska Native villages in the United States, all of whom are eligible for membership in NAIHC. Other NAIHC members include state-recognized tribes that were deemed eligible for housing assistance under the 1937 Act and grandfathered in to the Native American Housing Assistance and Self-Determination Act.
[2] See http://www.bls.gov/news.release/empsit.nr0.htm.
[3] Bureau of Indian Affairs Labor Force Report (2005).
[4] Many of these reservations are in the state of South Dakota, which has one of the lowest unemployment rates in the nation. However, on some SD reservations, the unemployment rate exceeds 80%.
[5] US Census Bureau, *American Indian and Alaska Native Heritage Month: November 2008*. See http://www.census.gov.

- According to the 2000 U.S. Census, nearly 12 % of Native American households lack plumbing compared to 1.2 % of the general U.S. population;
- According to 2002 statistics, 90,000 Indian families were homeless or under-housed;
- On tribal lands, 28 % of Indian households were found to be over-crowded or to lack adequate plumbing and kitchen facilities. The national average is 5.4 %;
- When structures that lack heating and electrical equipment are included, roughly 40 % of reservation housing is considered inadequate, compared to 5.9 % of national households;
- Seventy percent of the existing housing stock in Indian Country is in need of upgrades and repairs, many of them extensive; and
- Less than half of all reservation homes are connected to a sewer system.

There is already a consensus among many members of Congress, HUD, tribal leaders, and tribal organizations that there is a severe housing shortage in tribal communities; that many homes are, as a result, overcrowded; that many of the existing homes are in need of repairs, some of them substantial; that many homes lack basic amenities that many of us take for granted, such as full kitchens and plumbing; and that at least 200,000 new housing units are needed in Indian Country.

These issues are further complicated by Indian land title status. Most Indian lands are held in trust or restricted-fee status; therefore, private financial institutions will not recognize tribal homes as collateral to make improvements or for individuals to finance new homes. Private investment in the real estate market on Indian reservations is nearly non-existent. Tribes are almost wholly dependent on the federal government for financial assistance to meet their growing housing needs, and the provision of such assistance is consistent with the federal government's centuries-old, Constitution-based trust responsibility to American Indian tribes and Alaska Native villages.

<u>The Native American Housing Assistance and Self-Determination Act</u>

In 1996, Congress passed the Native American Housing Assistance and Self-Determination Act ("NAHASDA") to provide federal statutory authority to address the above-mentioned housing disparities in Indian Country. NAHASDA is the cornerstone for providing housing assistance to low-income Native American families on Indian reservations, in Alaska Native villages, and on native Hawaiian Home Lands. The Indian Housing Block Grant ("IHBG") is the funding component of NAHASDA. Since NAHASDA was funded in 1998, it has been <u>the single largest source</u> of funding for tribal housing. IHBG funds support new housing development, acquisition, rehabilitation, and other housing services that are critical for tribal communities, as well as essential planning and operating expenses for tribal housing programs.

American Recovery and Reinvestment Act (ARRA) and FY2010 Indian Housing Funds

NAIHC would like to thank Congress for its increased investment in Indian housing in FY2010. AARA provided over $500 million for the IHBG program. This additional investment in Indian Country supported hundreds of jobs, allowed some tribes to start on new construction projects, and assisted other tribes in completing essential infrastructure for housing projects that they could not have otherwise afforded with their IHBG allocations. Tribes have complied with the mandate to obligate and expend funds in an expedient manner, thus helping stimulate tribal and the national economies. In addition to ARRA funding, Congress appropriated $700 million for the IHBG in FY2010, the first significant increase for the program since its inception. This positive step reversed a decade of stagnate funding levels that neither kept pace with inflation nor addressed the acute housing needs in tribal communities, and NAIHC is thankful for this powerful step in the right direction.

The President's FY2012 Budget Request for the Indian Housing Block Grant

NAIHC supports the President's FY2012 Budget Request, which maintains the FY2010 level of funding of $700 million for the IHBG program. While NAIHC believes that the IHBG needs to be funded, at a minimum, at $875 million just to keep pace with increasing costs for housing development, energy efficiency initiatives, and other inflationary factors, we recognize that the current budget situation necessitates some difficult choices on the part of the Administration and Congress. We ask that Congress support funding for the IHBG program in an amount not less than the President's request of $700 million.

NAIHC also supports the inclusion of $65 million in the President's FY2012 Budget Request for the Indian Community Development Block Grant (ICDBG) program. This program provides funds for essential infrastructure for tribal communities. As the ICDBG program is one of the few sources of funds that tribes can access for the purpose of infrastructure development, NAIHC consistently requests $100 million per annum be made available for this program.

Training and Technical Assistance (T&TA)

The President's FY2012 Budget Request does not include the much-needed, exceptional T&TA that has been provided by NAIHC since NAHASDA was implemented. The provision of T&TA is critical for tribes to build their capacity to effectively plan, implement, and manage tribal housing programs. Eliminating funding for T&TA would be disastrous for tribal housing authorities and would be a huge step in the wrong direction. Tribes need **more** assistance in building capacity, not less. Since NAIHC's funding for T&TA was restored in 2007, requests for T&TA have steadily grown. The funding that NAIHC is currently receiving is insufficient to meet the steady, growing demand for T&TA. Therefore, we are forced to make difficult decisions regarding how to provide the most effective T&TA to our membership.

Conclusion

NAHASDA was enacted to provide tribal communities with new and creative tools necessary to develop culturally relevant, safe, decent, and affordable housing. It has been tremendously successful and it is our hope that tribes will be able to build on those successes in the future, which requires sufficient funding. NAIHC is thankful for proposed level funding for the IHBG and ICDBG programs, given the current budget climate, and we are hopeful that Congress will protect the IHBG and the ICDBG, programs that help provide the most fundamental of services – housing -- to some of the nation's most vulnerable citizens.

Thank you, Chairman Bachus, Ranking Member Frank, and the members of this Committee for allowing us to express our position regarding the President's FY2012 Budget Request. Your continued support of Native American communities is truly appreciated, and the NAIHC is eager to work with you and your professional staff on any and all issues pertaining to tribal housing programs and living conditions for America's native people.

Mr. Bachus #1

Rural Housing

Question: The recent GAO Study on government efficiency identified duplicative programs between USDA and HUD. Interestingly, the GAO Study does not identify duplication in the housing programs. Is this GAO report an indicator that there is no overlap of housing programs between HUD and USDA? Please explain.

Answer: Although HUD and USDA housing programs appear similar, they deal with different aspects of the challenge of providing credit in rural areas with populations under 20,000. For example, the larger lenders and borrowers that qualify and use FHA mortgage insurance programs are rarely interested in the challenges of the smaller markets areas in rural America and they find the smaller deals unprofitable. The average Rural Development multifamily property is under 50 units, which is crucial in providing housing in the small markets not served by the large lenders and borrowers that rely on FHA mortgage insurance.

Mr. Bachus #2

Rural Housing

Question: A prior 2003 GAO Study more specifically examined duplication between USDA and HUD in its multifamily programs. Does HUD believe there are similarities between HUD and RD multifamily housing programs?

Answer: While there are some initial similarities, there are also several important differences between HUD and RD multifamily housing programs. The Section 538 Loan Guarantee program is designed to be used as a supplement to other affordable housing sources such as LIHTC, HOME, and AHP funds. It is mainly used as an affordable way to make up the difference between the aforementioned funding sources and a project's total development costs. The Section 538 program has restrictions on both tenant income and rent while FHA's mortgage insurance programs do not have restrictions on either. Moreover, the preservation of RD multi-family housing programs is a greater challenge due to the lack of capital in rural areas, and the greater expense of attracting that capital.

Mr. Bachus #3

Rural Housing

Question: We understand that HUD, RD and Treasury are participating in meetings to harmonize multifamily program administration. If successful, what would coordinated administration of multifamily programs mean in terms of savings, efficiency, and meeting the needs of both rural and urban communities? Can you give us an interim report on those coordinating meetings? Will there be statutory changes recommended for Congress?

Answer: The White House's Domestic Policy Council established an interagency Rental Policy Working Group in early 2010 to better coordinate Federal rental policy. The White House hosted two gatherings in July 2010 so that the Rental Policy Working Group could obtain input for improved rental policy coordination from affordable rental housing developers and managers and from state and local officials. These stakeholders identified many issue areas where administrative changes could increase overall programmatic efficiency and reduce the burdens on the public. The objective was to seek better alignment of rental policy among three agencies that have significant affordable housing programs (Departments of Housing and Urban Development, Agriculture, and Treasury) in order to reduce costs and paperwork obligations for property owners, developers, managers, and state and local governments.

The Rental Policy Working Group subsequently assembled interagency teams to consider the input provided by participants in the July gatherings. They tasked the teams to survey current policy and, in consultation with state and local agencies and stakeholder groups, to find opportunities for greater Federal alignment. Draft recommendations are anticipated to be made public in summer of 2011. It is expected that recommendations would be primarily administrative and not require statutory changes. Once implemented, these administrative actions to reduce regulatory burden would speed the delivery of new housing and reduce the time involved and cost of compliance for owners, property managers, and localities enabling cost savings and better leveraging the Federal investment into affordable housing.

Alignment proposals will focus on physical inspections, subsidy layering reviews, financial reporting, appraisals and market studies, capital needs assessment, energy efficiency requirements, fair housing enforcement, and tenant income certifications. The interagency teams are considering implementing some of these alignment recommendations as pilots in states where significant progress has already been made at the local level. These pilots would bring Federal support and flexibility to aid pre-existing efforts where state level partnerships are already working to better align Federal rental policy. These pilots would serve to test possible solutions that could be taken to scale at a national level.

Mr. Bachus #4

Rural Housing

Question: Given the mission of the Rural Housing Service, what is HUD's long-term objectives in terms of rural housing efforts? Is there a possibility that outreach and expansion into rural housing efforts is possible?

Answer: The housing needs of rural communities present complex problems that are different than the needs of other communities. Problems of scale and time often make HUD's tools for dealing with these problems less effective than they are in urban and suburban settings. The rules and regulations of United States Department of Agriculture's (USDA) Rural Development office are set up to best handle rural housing needs. While HUD remains committed to serving the housing needs of rural communities, it recognizes to the expertise and abilities and central role of USDA.

However, HUD believes that there are ways to help make HUD programs better able to serve the needs of rural communities. For example, HUD seeks to make it quicker and simpler for those seeking financing to secure the tax credits and loans that they need. Small rural multifamily projects are very sensitive to financing needed to process the loan application. Because the financing is often combined with tax credits and other affordable housing sources, the transaction is time sensitive and can be complex. The Office of Multifamily Development is currently working on a tax credit pilot which would streamline the review requirements for applications financed with Low- Income Housing Tax Credits. Once implemented, we envision expanding the use of the pilot to rural housing because of the time-sensitive nature of these loans. This streamlining process will help small rural multifamily projects secure the needed financing in a timely manner, helping ensure that rents stay affordable.

Mr. Bachus #5

Rural Housing

Question: On the other hand, given the meetings to coordinate multifamily program administration, has there been any consideration to moving some or all of the Rural Development programs to HUD? What efficiencies and savings do you believe could occur if such a merger occurred? If these programs were moved, would that require also moving budget authority, staff and changing authorizations?

Answer: HUD does not currently have the staff or resources to absorb and service the 16,000 properties in USDA's Sections 515/514 portfolio. Additionally, there would be significant expense in the merging of loan origination and loan monitoring systems, transferring loan information, re-training staff on these systems, and the administrative cost associated with revising regulations. At this time, HUD does not believe the benefits of such a merger would outweigh the considerable costs. HUD will continue to collaborate with the Rural Development programs at all levels to achieve the efficiencies without the expenses of a merger.

Mr. Bachus #6

Rural Housing

Question: The RHS Section 538 loan guarantee program helps finance new multifamily properties and preserve some of the existing 16,000 Section 515 and Section 514 multifamily properties. Is there any particular reason why FHA multifamily programs couldn't address the same type of rural multifamily properties?

Answer: The major reason is the high cost of execution for rural projects. Much of the Section 515 portfolio is in need of substantial rehabilitation. However, these rehabilitations would statutorily require processing under the FHA 221(d)(4) program, and therefore must use Davis Bacon wage rates. For rural rehabilitations, these rates are usually substantially higher than the prevailing wage rate. This makes it difficult for projects to pay these rates and maintain affordable post-renovation rents.

Mr. Bachus #7

Manufactured Housing

Question: The Department proposes a budget of $14 million for administration of the Manufactured Housing Program. Of the $14 million, HUD is requesting $7 million in direct appropriations. It plans to raise the label fee from $39 per label to $60 per label to raise approximately $4.8 million from fees. It estimates that it will collect another $2.2 million in user fee income from the administration of the installation and dispute resolution programs in states that do not have such programs. There are 19 states that do not administer an installation program, and 23 states without dispute resolution programs. How did HUD arrive at the $2.2 million in estimated fees for these two programs?

Answer: To develop the estimated fee income for the Installation and Dispute Resolution programs HUD took two steps. We estimated the number of persons who might request a HUD installers license, and based a possible HUD license fee on the potential costs of running the program, and range of fees charged by states for the same type of installers license. We also developed a conservative estimate of fee income for persons applying for assistance with dispute resolution because currently no states charge fees for applications for those same services. This provided an estimate of $2.2 million in fee income.

Mr. Bachus #8a

Manufactured Housing

Question: HUD estimates that it will pay a contractor(s) approximately $3.4 million for the implementation and administration of the Installation Program and $1.7 million for the Dispute Resolution Program. What are the major elements that will be included in the Request for Proposal(s) for these contracts?

Answer: The Requests for Proposal are to assist the Department in carrying out the statutory requirements of the program, using contractual services authorized by statute. The major elements are:

Installation Contract

1. Project Management
2. Installer and Trainer Review, Licensing and Monitoring
3. Other Activities including: Analysis, Research, and Special Projects; Assessing State Programs; On-Site Assistance; Tracking Fee Collection; Special Investigations and Studies

Dispute Resolution Contract

1. Project Management
2. Providing services for Neutral Screener, Mediation, and Arbitration
3. Other Activities including: Analysis, Research, and Special Projects; Assessing State Dispute Resolution Programs; Tracking Fee Collection; Special Investigations and Studies

Mr. Bachus #8b

Manufactured Housing

Question: What is the status of these RFP(s)?

Answer: The Installation RFP is currently in HUD's procurement process. The Dispute Resolution RFP is currently being drafted.

Mr. Bachus #8c

Manufactured Housing

Question: When does HUD estimate it will issue these contracts?

Answer: HUD estimates that it will issue the Installation contract by the end of fiscal year 2011. HUD estimates that it will issue the Dispute Resolution contract by the middle of fiscal year 2012.

Mr. Bachus #9a

Manufactured Housing

Question: Secretary Donovan, since 2007, the budget for the HUD Office of Manufactured Housing Programs -- which regulates the construction and safety of manufactured homes -- has more than doubled, receiving infusions of general tax revenues in the amount of $5.4 million in 2009 and $9.0 million in 2010, even though the number of manufactured homes produced during the same period fell steadily from 95,752 in 2007 to 49,275 in 2010.

For 2012, HUD is requesting a direct appropriation of $7 million, even though the outlook is for continued weakness in the manufactured housing market. Throughout this period, HUD has claimed that such increased amounts and tax funding -- for what is designed to be a self-funding program -- were necessary to implement new programs authorized by Congress in 2000, including a Federal installation program. But, in its budget justifications for 2011, the program referred to its "budgetary inability to implement the new installation program." Again in a February 4, 2010 Federal Register notice, HUD referred to "delays in the implementation of HUD's program for states in which HUD will administer the installation program." If these programs have not yet been implemented:

What has this additional funding been used for? If it was used for purposes other than those disclosed to Congress, why?

Answer: The additional funding has been used solely for activities outlined in the fiscal year 2011 Budget submission, which are payments to states, a contract for monitoring primary inspection agencies, and a contract for consensus committee administering organization. In fiscal year 2011, the Federal manufactured home program anticipates executing a contract for assistance in administering the Manufactured Home Installation Program.

The Department has never used the appropriated funds for any activity except those outlined in HUD's fiscal year 2011 Budget submission.

Mr. Bachus #9b

Manufactured Housing

Question: What is HUD's justification for delaying the implementation of programs due, by law, to have been in place by December 2005, when implementation funding was, in fact, authorized and provided by Congress?

Answer: Establishing the full and appropriate format for the two new programs, procuring necessary contractual support and the extended deliberations of the Manufactured Housing Consensus Committee on the Model Installation Standards has further delayed implementation of the Installation Program and the Dispute Resolution Program. It should be noted that since the beginning of 2008 HUD has been using Department staff to administer all aspects of the Dispute Resolution Program required so far and in the States with fully approved installation programs (19 states), the model installation program is currently operating.

Mr. Neugebauer #1

Public Housing Performance

Question: The Public Housing program was designated as non-performing by the Office of Management and Budget and received a rating of 'results not demonstrated' in OMB's 2005 PART analysis of the program. According to OMB, a rating of results not demonstrated indicates that a program has not been able to develop acceptable performance goals or collect data to determine whether it is performing. What has HUD done to improve the performance of the Public Housing program? What metrics is HUD currently using to evaluate the Public Housing program?

Answer: The Department has pushed for a more efficient use of funding and maximizing the use of the public housing Federal resources. The most direct measure of efficiency and performance is program occupancy and vacancy rates. Under its High Priority Performance Goal #2, the Department has set the goal of occupying 33,000 additional Public Housing units by leasing vacant units. To support this goal, the Department is also measuring the utilization of funds and other development activities. Recovery Act funds will return previously vacant and uninhabitable units back to a habitable state and the Department is pushing to have those units filled with program eligible families as quickly as possible. In addition, the Public Housing program is a contributor to the High Priority Performance Goal #4 to promote cost effective energy efficient retrofits, in support of HUD's goal to complete cost effective energy and/or green retrofits of an estimated 159,000 units by the end of fiscal year 2012.

Additional metrics used to measure the performance of public housing include the level of improper payments and the Public Housing Assessment System, which measures PHA performance in regards to the physical state of units and financial condition of the organizations.

While not a metric, the Department is in the process of a comprehensive data-scrub of its Public and Indian Housing Information Center (PIC) data. The greatest barrier to serving more families within the Public Housing program is the definition of data points and proper tracking for Public Housing units. The primary source of the aforementioned data resides in the PIC system, which facilitates the flow of program data from the PHAs to the Department. However, this information is subject to human decision-making, and often the definitional boundaries of some designations are unclear. To rectify this issue, the Department is developing protocols for analyzing PIC vacancy data and working to confirm data entered by PHAs is accurate. Program monitoring directives such as this provide the greatest potential for success in Public Housing utilization. It is imperative that data measures and the actual data are as accurate as possible. As such, a Business Process Improvement will be implemented to maximize and streamline the Public Housing program. In order to utilize the PIC system in the most effective way, it is necessary to ensure that data entered into the system is correct and true to the situation. Thus, the Department must continue to work to validate data entered into the PIC system on a routine basis, to guarantee the quality and reliability of the data that is the driver of policy and program decisions made at the national level.

Mr. Neugebauer #2

Funding for ACORN

Question: In the 110th and 111th Congress, the House passed legislation which established prohibitions on funding to both ACORN specifically and organizations which employ individuals convicted of voter fraud generally. In an effort to maintain compliance with these laws, organizations which distribute Congressionally appropriated housing counseling funds continue to seek guidance regarding which organizations are eligible for Federal dollars. For example, in a September 29, 2010 letter, the Government Accountability Office (GAO) advised NeighborWorks (a Congressionally chartered housing counseling agency) that the Affordable Housing Centers of America (AHCOA), an ACORN successor organization which had subsequently cut ties with the organization, would in fact be eligible for Federally funded grants. GAO worked in conjunction with HUD and the IRS in forming this recommendation. What steps is HUD taking to ensure that these statutory funding prohibitions are upheld by HUD?

Answer: HUD is taking significant steps to ensure that the statutory funding prohibitions are upheld. Housing counseling approval applicants for whom ACORN affiliation is questioned, or for whom there are concerns regarding voter fraud, are escalated and carefully vetted by HUD OGC attorneys familiar with these prohibitions. Moreover, HUD is engaged in rulemaking and housing counseling approval application enhancements to make compliance with these requirements a formal part of the housing counseling program and agency approval process. For example, HUD is engaged in rulemaking to comply with the housing counseling provisions in the Dodd-Frank Act. The proposed rule will reflect these funding prohibitions and codify them as HUD housing counseling program regulations. HUD is also updating the form HUD-9900, the housing counseling agency approval application, to make these requirements part of the standard process HUD goes through to research and evaluate an agency's eligibility to participate in HUD's housing counseling program.

Mr. Neugebauer #3

Funding for Affordable Housing Centers of America (ACHOA)

Question: I would also like to address an investigation described in a September 2010 report by HUD's Inspector General. HUD's OIG revealed there were considerable irregularities regarding how the ACORN successor organization OCHOA billed HUD for housing counseling. ACHOA received closed to $29 million funding from NeighborWorks and HUD in FY 2008 and FY 2009. Although the majority of funds came from NeighborWorks apparently, the ACHOA method for billing these two organizations for counseling services did not follow protocols set out by the Office of Management and Budget (OMB). (ACHOA disagrees with this assessment.) Additionally, HUD OIG's sampling of time sheets also revealed that HUD was billed for counseling from terminated employees. Has HUD resolved this issue? Will HUD continue to contract with ACHOA given these billing irregularities?

Answer: HUD is very concerned with the OIG audit of AHCOA and the findings of significant billing irregularities. In response to the HUD OIG audit, HUD has referred this matter to the Department of Justice for the possible filing of a False Claims Act case.

HUD is withholding grant funds to AHCOA, pending resolution of the audit. HUD did not fund AHCOA with housing counseling grants in 2010 or 2011. HUD is considering terminating AHCOA as a HUD-approved housing counseling intermediary.