OVERSIGHT OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

HEARING

BEFORE THE

SUBCOMMITTEE ON
INSURANCE, HOUSING AND
COMMUNITY OPPORTUNITY

OF THE

COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

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WITNESSES

TUESDAY, FEBRUARY 28, 2012

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

OVERSIGHT OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Tuesday, February 28, 2012

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INSURANCE, HOUSING
AND COMMUNITY OPPORTUNITY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:01 a.m., in room 2128, Rayburn House Office Building, Hon. Judy Biggert [chairwoman of the subcommittee] presiding.

Members present: Representatives Biggert, Hurt, Miller of California, Capito, Garrett, McHenry, Westmoreland, Dold, Stivers; Gutierrez, Waters, Velazquez, Watt, Sherman, and Capuano.

Also present: Representatives Neugebauer and Green.

Mrs. CAPITO [presiding]. This hearing of the Subcommittee on Insurance, Housing and Community Opportunity will come to order.

I want to welcome the witnesses and welcome the Members. And without objection, all Members' opening statements will be made a part of the record.

Subcommittee chairs and Minority and Ranking Minority Members will be recognized for 5 minutes each. All other Members will be recognized for 3 minutes each. And we are going to alternate between the Majority and the Minority.

So without objection, I am going to give my opening statement.

Again, I would like to thank the witnesses and the members of the subcommittee for joining us this morning. Over the past year, the Insurance, Housing and Community Opportunity Subcommittee, under the leadership of Chairwoman Biggert, has worked diligently to address the problems facing our committee and the obstacles preventing a full housing recovery.

Today's hearing will allow us to review programs within the Department of Housing and Urban Development (HUD), as well to examine HUD's Fiscal Year 2013 proposed budget.

In a climate of tighter budgets and limited resources, it is essential that we find smarter ways to spend our dollars without sacrificing assistance to those in need. Many housing programs can benefit from cost savings through reform, by eliminating inefficiency and needless requirements.

As a member of this subcommittee during this Congress and the last Congress, we have made headway in dealing with the ever-increasing portion that public and assisted housing occupies in HUD's budget, by introducing legislation that will reduce costs and implement needed improvement.

I am concerned that without reform, rental assistance will continue to grow as a percentage of HUD's budget, and an opportunity could be missed.

Finally, to follow up on a hearing held last year when Secretary Donovan sat before the full committee, FHA's Mutual Mortgage Insurance Fund still sits at a dangerously low level, and seems headed towards insolvency, where it would then be forced to draw down from the Treasury.

To me, this is an intolerable scenario. We have heard about the pending issue. Is it coming, will it come, and in what form can it come?

I would like to avoid the final scenario.

But seeing the budget outlined by the Administration further reinforces my concern. Anticipating a $668 million bailout says to me that the problem is no longer fixable without additional actions to shore up the fund.

Since that hearing, we have heard that funds from the attorneys general's settlement with mortgage servicers, along with increased premiums—and I understand premiums were increased yesterday—and a better book of business will prevent assistance from the Treasury.

I would like to believe this, but I have heard too many times that we have been assured that FHA was in a stable position only to find out that is not the case, as we now know.

I hope our panelists here today can address these concerns. And I would like to say that I appreciate the Administration moving yesterday to try to mitigate some of these issues and to offer solutions as we move forward.

Again, I would like to thank our witnesses for their time. I look forward to their testimony.

And I would like to yield 5 minutes to the ranking member, Mr. Gutierrez.

Mr. GUTIERREZ. Thank you, Madam Chairwoman, and thank you to all of the witnesses for joining us this morning to discuss the oversight of HUD and its budget.

Today, we are looking into how HUD proposes to meets its mission to streamline funding levels and policy constraints that create greater efficiencies in this time of fiscal constraint.

I am very pleased that while remaining fiscally responsible, the Administration has been able to increase HUD's overall budget by $1.4 billion. I am also happy that the Mutual Mortgage Insurance, MMI Fund, will not have to draw down an emergency authority from the Treasury, as OMB had initially anticipated, thanks mostly to the $1 billion from the recent mortgage abuse settlement.

However, I looked through the Administration's proposed budget, and there are a few points that do concern me.

First, I would like to see guarantees that the requested capital and operating flexibilities will not lead to public housing authorities funding their operating costs at the expense of capital improvement. There is currently $3.4 billion in capital improvements needs in public housing. And want to be sure that these protections are in place so they can meet their needs.

Second, I am also concerned about the proposed short funding of 10,600 project-based rental assistance contracts which will create uncertainty among providers. We tried this once before in Fiscal Year 2007, and it resulted in late payments and a funding shortfall that we had to fill in the Recovery Act.

Most concerning, however, is the proposed increase in the minimum rent. The budget proposes to increase minimum rent from $50 to $75. In multifamily programs, where residents currently pay $25, this would be an increase of 200 percent.

We are talking about a rent increase on about 500,000 individuals who make $250 or less a month. So that we put it in perspective, who is it that is getting the raise—$250 or less. And many of them are in the "or less" per month.

Now, $25 to $50 may not sound like much when being discussed in terms of government executives or for many Members of Congress who make $174,000. If I had to pay another $25, it wouldn't mean that much to me.

We make $725 a day. So, you can imagine—I think I could do without $25 to $50 in 1 day out of $725.

We are talking about people who make $250 or less a month.

HUD claims that this is an effort to adjust a 1998 minimum rent level for inflation to bring the number to around $69. How did we get to $75?

And how was it decided to tack another $6 onto the rent of the poorest families?

HUD has also decided to eliminate the discretion of PHAs as to whether going below the minimum rent would be in the best interest of their residents. This is particularly important in areas where incomes have not increased with inflation, areas with high unemployment, for example.

At the end of the day, I just don't see the logic of arbitrarily closing budget holes on the backs of the most vulnerable families in our community, that if we fail, day after day, to discuss revenue options from America's least vulnerable, the people with the highest incomes.

I thank Madam Chairwoman, and all of the witnesses. And I look forward to the discussion that we will have today.

I yield back the balance of my time.

Mrs. CAPITO. Thank you.

I would like to now recognize the vice chair of the subcommittee, Mr. Hurt from Virginia, for 3 minutes.

Mr. HURT. Thank you, Madam Chairwoman.

I want to thank Chairwoman Biggert for holding today's hearing and for her commitment to good stewardship of taxpayer dollars in the context of housing issues programs.

The people that I represent in central and south side Virginia continue to deliver the urgent message that if we are truly serious about revitalizing our economy and preserving this great country for our children and grandchildren, we must put an end to Washington's out-of-control spending.

My colleagues and I on the Financial Services Committee recognize the need to rein in spending and to make Federal programs more efficient and less costly. We have advanced many proposals to reform the Federal housing programs and reduce the financial risks to which taxpayers are exposed by outsized Federal participation in the housing market.

However, the President's budget proposal does not appear to recognize the depth of our fiscal crisis. Instead, this proposal is full of more government programs, mandates, and spending, at a time when we can least afford it.

This proposal seeks $1.4 billion in increased spending, or 3.2 percent in increased spending, compared to the current fiscal year.

With our Nation's debt exceeding $15 trillion, we must closely scrutinize Federal programs and policies, and cut wasteful spending to force the government to live within its means.

I want to thank Chairwoman Biggert for holding this hearing. I want to thank each of the witnesses for being here and for helping guide us through this difficult process.

And I yield back the balance of my time.

Mrs. CAPITO. The gentleman yields back.

My understanding is that Mr. Capuano passes on an opening statement, so we will go to Mr. Miller for 3 minutes.

Mr. MILLER OF CALIFORNIA. Madam Chairwoman, excuse me.

I am really concerned about the budget proposal we have before us today. What we have in front of us really is more of the same. Billions have been spent. We must stop the overregulation that drives up the cost. And we must stop spending. We need a new direction. From the programs that serve the lowest income to creating the move up market, what I see is inefficiency and regulatory barriers. This must change to get our housing market back on track.

Unfortunately, what has been proposed here is the status quo, additional spending of programs that don't work, coupled with misguided policies that further disrupt the housing market.

The Section 8 Program is growing so rapidly that HUD's other programs are suffering as a result. In 2002, Section 8 accounted for 46 percent of HUD's annual budget. Now, it accounts for over 60 percent.

It is not feasible for the Federal Government to continue to increase funding for the programs without enacting meaningful reforms.

What makes this even worse is that we aren't even seeing results from what we have done today. The average length of time families spend on the waiting list in subsidized housing in the United States is 2 years. In cities like Los Angeles, it is actually 10 years.

How can we justify a situation where one person is given unlimited Federal housing assistance while another who might have a greater need is on the waiting list and forced to fend for themselves for that many years?

The answer is not to allow the program to continue to grow out of control. Rather, we must reform the program so that participants can transition into self-sufficiency within a reasonable period of time, giving more families the ability to benefit from our Nation's temporary helping hand.

I want to congratulate you on some of the reforms you have enacted, though: increasing minimum rents; allowing PHA's flexibility when it comes to use of capital and operating funds; and changing some Administration rules.

But this isn't enough.

This committee recently marked up a Section 8 reform bill. The bill included a provision I had in it that allowed the Moving to Work (MTW) Program to expand.

MPW has proven that public housing authorities could help more people, improve the quality of the system, and reduce costs at the same time. HUD should have embraced this program rather than put roadblocks in front of it.

For far too long, we have accepted the notion that a compassionate housing system is defined by how many dollars we spend, rather than the way the money is actually used. At this time of considerable budget constraint, it makes sense to give PHAs flexibility that helps them improve the quality and effectiveness of their programs without increasing costs.

I have also been disturbed by FHA's policy to drive up the cost of rental housing. These regulatory barriers do nothing but make the next step for individuals to transition out of rental assistance even more difficult. By driving up the cost of housing, it puts taxpayers at risk.

To get an FHA construction loan, you have to use a prevailing wage that drives up the cost 20 percent to 25 percent. I don't know who that helps. It doesn't help the renter. And it doesn't help the taxpayer because it puts the taxpayers more at risk for making higher loans than we need to make. It doesn't help taxpayers at all. And it doesn't help the housing market to get back on track. All it does is drive up the cost of housing.

On top of this, you proposed an increase of premiums for builders, not for safety and soundness, but to claw back private capital. Why would you increase the cost if it is really not for safety and soundness? To get the housing market back on track, capital must come back.

On condominiums, the next one—for someone who has been a renter and wants to become a homeowner, we see regulatory barriers that impact the ability to get credit. Specifically, the current requirement FHA has recently imposed on condominium units has dried up the availability of credit in this sector. There are 25,000 condominium projects in the country that used to be FHA-approved. Today, there are only 2,100.

Without this certification, no one can buy a condo unit using FHA in these projects. Now, maybe some of these projects shouldn't be FHA-certified, but it is good to weed them out if they are bad.

But this significant drop, only 8.4 percent of condos that used to be approved by FHA are now approved. Something is wrong with this regulation. We need to figure out how to fix it the right way. This is a needless drag on the market.

What we do know is that the regulation is having a dramatic impact on the market. The lack of availability of financing is driving down the value of condominium units nationwide.

Those low- and moderate-income individuals in rental housing have a hard time moving up to homeownership in a condominium because of unnecessary regulatory burdens placed on them.

The FHA Single Family Program has major problems too. For the first time in the history of the program, the budget—

Mr. GUTIERREZ. The time of the gentleman has expired by a minute and seven-eighths seconds—

Mrs. CAPITO. The Chair is extending—

Mr. MILLER OF CALIFORNIA. I don't believe that you are the chairman of the subcommittee. And the chairman will notify me, Mr. Ranking Member.

I yield back the balance of my time.

Mr. GUTIERREZ. Well, I object.

Mr. MILLER OF CALIFORNIA. I object to your interrupting me when you are not the chairman—

Mr. GUTIERREZ. I object—

Mrs. CAPITO. I object to this conversation.

Mr. GUTIERREZ. Watch the clock. Simply watch the clock.

Mr. MILLER OF CALIFORNIA. Mind your own business.

Mrs. CAPITO. Gentlemen, suspend.

Mr. GUTIERREZ. All the gentleman has to do is watch the clock.

Mr. MILLER OF CALIFORNIA. All you have to do is mind your own business.

Mr. GUTIERREZ. It is my business. I can chair this meeting—

Mrs. CAPITO. Ms. Velazquez does not have an opening statement, correct? Okay. I want to recognize Mr. Westmoreland for 2 minutes.

Mr. WESTMORELAND. Thank you, Madam Chairwoman.

As expected in the President's budget released this month, FHA will need a taxpayer bailout. Although this may not be important to the witnesses testifying today, there is not one single Federal housing program yet that has not needed a bailout to survive.

If FHA were a community bank in Georgia, you would have all been put down a long time ago. To add insult to injury, the President has requested an overall 3.2 percent increase in HUD's budget, mostly in the Section 8 and public housing budget.

In fact, 83 percent of HUD's budget goes to paying people's rent.

Unfortunately, HUD says its programs create jobs. But no one testifying today can tell me exactly how many people have left the Section 8 Program over the last 5 years because they got a job and became self-sufficient.

I urge this committee to find additional savings in these programs, as reform proposals continue moving through this committee. In the absence of more savings, I urge the committee to seriously explore block granting these programs to return control of these out-of-control programs to the States where they belong.

I have 45 seconds left, and I will yield those back to the chairwoman.

Mrs. CAPITO. Thank you. The gentleman yields back.

Mr. Dold, for 2 minutes.

Mr. DOLD. Thank you, Madam Chairwoman. And I certainly want to thank the witnesses for being here today.

These congressional oversight hearings, I think, are absolutely critical to our government system. They help ensure that the laws are implemented and executed as Congress intended. They also promote government transparency, accountability, and efficiency.

They allow us to have productive discussions about areas of concern and also about areas of agreement between Congress and the Administration.

In this case, we see several areas of agreement between the Administration and Congress. I can mention only a few of these areas of broad bipartisan agreement. But I think it is important to highlight them.

First, we all agree that our most vulnerable and disadvantaged citizens should receive government housing assistance that is reliable, meaningful, efficient, and effective.

Second, the government assistance should be, whenever possible, there to promote independence and self-sufficiency.

Third, taxpayer liability, risk to potential FHA losses, should be carefully monitored, limited, and minimized, which includes encouraging private sector capital to become our primary source of mortgage financing.

And finally, HUD, like every other government agency, should consistently or constantly improve and streamline its operations to prevent fraud, and to contribute to meaningful deficit and debt reduction.

These kinds of objectives have nearly unanimous support in both Congress and the Administration. And we should hold each other accountable for constantly working towards these objectives along with others of bipartisan agreement.

I have some concerns which I certainly hope will be reflected in some questions. And I know we are not going to be able to get to all of them in 28 seconds, but I do want to just touch on a few.

First, HUD regulations seem to be unnecessarily damaging to the condominium market.

Second, certain proposed rules would exceed HUD's jurisdiction under Federal law by seemingly attempting to regulate homeowners insurance which is legally reserved to State regulators.

Third, my concern is whether HUD accurately estimates the risk that FHA poses to taxpayers.

Fourth, my concern relates to HUD's bedbug regulations, which seem to require eradication while simultaneously prohibiting the necessary steps for eradication.

And with that, I will yield back.

Mrs. CAPITO. The gentleman yields back.

I believe that concludes our opening statements.

So without further ado, I would like to introduce our panel of witnesses.

Without objection, your written statements will be made a part of the record, and you will each be recognized for a 5-minute summary of your testimony.

Our first witness is Mrs. Carol Galante—who is no stranger to this committee and subcommittee—the acting Federal Housing Administration Commissioner and Assistant Secretary for Housing at HUD.

Welcome. Mrs. Galante?

STATEMENT OF CAROL GALANTE, ACTING FEDERAL HOUSING ADMINISTRATION COMMISSIONER AND ASSISTANT SECRETARY FOR HOUSING, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mrs. GALANTE. Thank you, Chairwoman Capito, and Ranking Member Gutierrez, for the opportunity to testify on the 2013 budget request for HUD's Office of Housing.

Our office is critical to ensuring more Americans have the opportunity to realize or maintain the economic security of the middle class. And the work this Administration has done has established a strong foundation upon which an economy built to last will be constructed.

Three years ago, with the housing market collapsing and private capital in retreat, we took decisive action to address the crisis and lay the groundwork for recovery.

Since the start of this Administration, FHA has helped nearly 2.8 million families buy a home, and over 1.7 million homeowners refinance into stable, affordable loans.

And with your help, we have taken the most significant steps in FHA's history to reduce risk to the taxpayer and reform FHA's practices.

We have ensured the FHA has the flexibility necessary to price its products appropriately for current risks and market conditions. And we have transformed FHA's risk management system to better align with the needs and realities of the 21st Century mortgage market.

These reforms are responsible for the most profitable books of business in FHA's 78-year history.

Even still, we recognize FHA continues to be strained by past loans. That is why we continue to take actions to strengthen FHA's MMI Fund.

Our budget reflects the implementation of the 10 basis point annual increase to FHA's single family premiums enacted by Congress, as well as an additional 25 basis point annual increase on jumbo loans.

FHA is projected to add $8.1 billion in receipts to the Capital Reserve Account in 2013. And just yesterday, we announced that FHA will also increase its upfront premium by 75 basis points. This increase, which will cost borrowers only about $5 on average a month, is expected to yield more than $1 billion in additional receipts to the MMI Fund in this fiscal year and next, beyond the receipts anticipated in the President's budget.

The budget also proposes the first premium increase for FHA's market rate multifamily and health care programs in 10 years. These modest increases ensure that premiums charged for these products are appropriate.

While FHA will continue to play an important role in supporting the housing recovery in the year ahead, we are committed to reducing the government's footprint over time. With loan volume already down 34 percent from its peak in 2009, and FHA's current market share declining for the first time since 2006, we have set the stage for more private capital to return while ensuring that FHA remains a vital source of financing for underserved borrowers and communities.

We also continue to take steps to strengthen accountability for FHA lenders. We recently issued a final rule detailing the process by which FHA will require indemnification for improperly originated loans.

And we continue to seek expanded authority via legislation that will further enable us to protect the MMI Fund. Further evidence of this Administration's commitment to hold lenders accountable can be seen through the recently announced settlement with some of America's largest banks, through which FHA will receive almost $1 billion in compensation.

While additional risks remain for FHA as the economy is fragile, the recovery is fragile, the significant reforms and strong enforcement efforts undertaken are yielding sound and profitable business, positioning FHA well for the future.

Despite FHA's important work throughout the recent crisis, there remain sectors of the housing finance market where additional liquidity is needed. One of those areas is in small building finance for rental homes.

Nearly a third of the Nation's renters, more than 20 million households, live in small properties of 5 to 49 units. That is why as part of the President's budget, HUD is proposing legislative changes to the risk-share program to provide qualified entities such as State housing finance agencies, the ability to securitize multifamily risk-share loans through Ginnie Mae.

And HUD remains committed to protecting current residents and improving the programs that serve them. HUD is requesting a total of $736 million to fund two programs that will directly support housing and services for very low-income elderly and persons with disabilities through the Sections 202 and 811 Programs.

New investments will now fully leverage State and local affordable housing resources.

And as we work to achieve savings and to operate efficiently and effectively, the Project-Based Rental Assistance Program (PBRA) is improving oversight of market rent studies, capping certain annual subsidy increases, and offsetting excess reserves.

Even with these savings, protecting current families required us to make choices we would not have otherwise made in a different fiscal environment. One of these difficult choices can be seen in HUD's request of $8.7 billion for the PBRA Program.

As we look to make all of our programs more efficient and effective, the FHA transformation initiative will enable us to replace outdated systems with modern technology.

And so, Madam Chairwoman, this budget reflects this Administration's belief that the recovery of our housing market is essential to the restoration of our economy by targeting resources where they are most needed, making tough choices in order to do more with less, and ensuring the protection of taxpayer interests. HUD's Office of Housing is doing its part to create and sustain communities built to last.

Thank you.

[HUD's joint prepared statement can be found on page 44 of the appendix.]

Mrs. CAPITO. Thank you.

Our next witness is the Honorable Sandra B. Henriquez, Assistant Secretary, Office of Public and Indian Housing, U.S. Department of Housing and Urban Development.

Welcome. Thank you.

STATEMENT OF THE HONORABLE SANDRA B. HENRIQUEZ, ASSISTANT SECRETARY, OFFICE OF PUBLIC AND INDIAN HOUSING, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Ms. HENRIQUEZ. Good morning, Chairwoman Capito, Ranking Member Gutierrez, and members of the subcommittee.

I want to thank you for the opportunity to testify before you this morning regarding the Fiscal Year 2013 budget for the Office of Public and Indian Housing (PIH) at HUD.

We remain focused on making strategic investments in our communities while taking responsibility for our deficits.

For PIH, that has meant remaining focused on three core objectives: one, protecting current residents and improving the programs that serve them; two, continuing progress on signature initiatives to speed redevelopment and economic growth; and three, reducing regulatory burdens and increasing efficiency.

Our commitment to fiscal discipline means that our 2013 budget makes extremely tough choices, ones that we would not have normally made under different fiscal circumstances.

For instance, we have proposed an increase in minimum rents across our program, a decision that despite the continued availability of hardship exemptions was extraordinarily difficult to make.

At a time when more than one-third of all American families rent their home, and 7.1 million of these families spend more than 50 percent of their income on rent, it remains more important than ever to provide a sufficient supply of affordable rental homes for low-income families.

HUD's Fiscal Year 2013 budget maintains HUD's core commitments to providing rental assistance to some of our country's most vulnerable households. This proposal provides $19.07 billion for HUD's Section 8 Tenant-Based Rental Assistance Program to assist approximately 2.2 million families by renewing existing vouchers and issuing new incremental vouchers to homeless veterans and other vulnerable populations.

The budget also provides a total of $6.59 billion to operate public housing and modernize its aging physical assets, a critical investment that will help 1.1 million households to obtain or retain their housing.

In addition, $731 million has been requested to support housing and development initiatives in Native American, Alaskan, and Hawaiian communities, supporting more than 560 tribes across this country.

Our 2013 budget provides $150 million for the Choice Neighborhoods Initiative to continue transformative investments in distressed, high-poverty neighborhoods.

The five Choice Neighborhood implementation grantees funded in 2011 have leveraged a combined $1.6 billion in private funds, 13 times their total grant award amount.

To address a rapidly shrinking public housing portfolio, and an estimated $26 billion in capital backlog of unmet needs, HUD's 2012 Appropriations Act authorized the rental assistance demonstration to test new preservation tools for its public housing, Mod Rehab, Rent Supp, and RAP assisted housing stock.

These strategies offer housing authorities and owners a platform to better leverage current Federal appropriations with other private and public capital.

This budget also provides critical flexibilities to local housing authorities to deal with the challenging economic environments by streamlining public housing operating and capital funds. The budget provides that all housing authorities have this flexibility to use their operating and capital for any eligible capital and operating expense.

We also propose the consolidation of the Family Self-Sufficiency Program to enable housing authorities to more uniformly serve participants in the voucher and public housing programs. The budget authorizes housing authorities to use their public housing and voucher funding to augment case management and supportive services provided through FSS or other programs to increase opportunities for residents.

Finally, it is clear that an economy built to last requires a Federal Government that is efficient, streamlined, and transparent. This budget proposal reforms the PIH Program that would save $208 million without reducing the number of families served.

I want to express my appreciation for the bipartisan work the subcommittee and full committee is engaging in with the Department and with stakeholders on the Affordable Housing and Self-Sufficiency Improvement Act.

At this critical moment, it is essential that we collaborate to streamline the Department's largest rental assistance programs.

Nowhere is the relationship between housing and supportive services clearer than in our efforts to address homelessness, especially among our veterans. And that is why we are requesting $75 million for 10,000 vouchers for the HUD–VASH program.

Thanks to the congressional support for the transformation initiative, past fiscal year appropriations are today funding a wide range of groundbreaking projects.

PIH TI-funded projects include the development of enhanced tracking tools to better monitor progress and outcomes for troubled PHAs, a financial forecasting simulation tool that allows PHAs to adjust financial scenarios to project impact, and peer-to-peer analytical tools that compare average revenues and expenses of peer PHAs of comparable size and geography.

Central to this is the development of the next generation management system which will improve the way we manage and administer all of our programs by streamlining processes and improving business performance starting with the voucher program.

Madam Chairwoman, through targeted streamlining and some major policy reforms on which we will continue to work with this committee, PIH is able to realize cost savings while serving the same number of families.

Thank you.

[HUD's joint prepared statement can be found on page 44 of the appendix.]

Mrs. CAPITO. Thank you.

Our next witness is the Honorable Mercedes M. Marquez, Assistant Secretary, Community Planning and Development, U.S. Department of Housing and Urban Development. Welcome.

STATEMENT OF THE HONORABLE MERCEDES M. MARQUEZ, ASSISTANT SECRETARY, COMMUNITY PLANNING AND DEVELOPMENT, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Ms. MARQUEZ. Thank you very much.

Chairwoman Capito, Ranking Member Gutierrez, and members of the subcommittee, thank you for the opportunity to testify today on Community Planning and Development's (CPD's) budget.

CPD programs are foundation stones for our Nation's community development, affordable housing finance, and homeless service systems. These programs make it possible for State and local governments to leverage other public and private dollars to implement large-scale, long-term solutions to pressing community challenges.

For example, HOME leverages $4 of private or other public dollars for each own dollar invested. The Fiscal Year 2013 proposal requests flat funding compared to Fiscal Year 2012 for CDBG and HOME formula funds.

We know that State and local governments are strained in addressing job creation, infrastructure, and affordable housing needs. And we would not have made this difficult decision under different circumstances. We made this choice because we are committed to the Administration-wide effort to reduce the national deficit.

In Fiscal Year 2011, over 28,000 Americans found or retained permanent jobs that businesses directly supported by CDBG and Section 108. CDBG provided public service activities to 10.1 million people and benefited approximately 4.1 million people through public improvement investments.

HOME has completed more than 1,040,000 units of affordable housing. At the requested level, grantees can produce 43,000 units of affordable housing and help 10,500 families with tenant-based rental assistance.

CDBG and HOME dollars created jobs in the community, multiplying the direct investment.

At the requested funding levels, these programs would create or retain nearly 80,000 jobs. Results show that CDBG Recovery Act funds created twice as many jobs per dollar as other Recovery Act programs.

The Project Rebuild request for $15 billion in the President's Job Act and Fiscal Year 2013 budget creates jobs and mitigates the impacts of the foreclosure crisis by providing funds to purchase or rehabilitate foreclosed or abandoned properties.

Project Rebuild innovates based on the success of the Neighborhood Stabilization Program, allowing grantees to use up to 30 percent for redevelopment of commercial properties. It would support more than 190,000 jobs and treat more than 195,000 properties.

I especially want to acknowledge and thank Congresswoman Waters for her leadership in introducing Project Rebuild legislation in the House.

Our homelessness request reflects a $330 million increase compared to Fiscal Year 2012. However, decreases in CDBG and HOME create gaps in homeless services at the local level.

$2.23 billion enables us to implement key components of the HEARTH Act, though we will not be fully able to implement all of the provisions. The increase reflects the Administration's commitment to the Federal Strategic Plan to prevent and end homelessness.

The Homelessness Prevention and Rapid Re-Housing Program funded by the Recovery Act and ending in Fiscal Year 2012 has helped to prevent or end homelessness for more than 1.2 million people nationwide. ESG will absorb the successful prevention and rapid rehousing functions in Fiscal Year 2013.

These strategies are working. Overall, homelessness on a single night across all categories has declined by 5.3 percent since January 2007. And homelessness among veterans has declined by nearly 12 percent since January 2010.

This funding will create 3,450 new units of permanent supportive housing and serve over 800,000 homeless families and individuals.

The request for the Housing Opportunities for Persons with AIDS Program (HOPWA) is $330 million, $2 million less than Fiscal Year 2012.

The proposed funding will assist local communities in continuing housing assistance for 56,400 households with people living with HIV or AIDS, supporting the Administration's national HIV–AIDS strategy, and maintaining stability and improving health outcomes for this vulnerable population.

We also propose to update the HOPWA formula to reflect the current understanding of HIV–AIDS, distributing funds based on the current population of HIV-positive individuals, fair market rents, and poverty rates to target to the highest need.

We also request $100 million for Sustainable Housing and Communities grants, enabling innovation and challenging communities to creatively use existing resources at a time when the fiscal environment has required us to flat fund CDBG and HOME, dollar for dollar the most effective job creators in our budget.

Sustainable Communities grants are particularly essential because they leverage increasingly limited Federal dollars. Under our proposal, rural areas would receive nearly $700 million in CDBG and $300 million in HOME. Together, these funds would support nearly 33,000 jobs directly and indirectly in rural areas, and provide infrastructure economic development and affordable housing.

The Rural Housing Stability Assistance Program funds a $5 million program implemented for the first time in Fiscal Year 2012 which is targeted to rural areas that have minimal Federal funds invested for homelessness.

CPD plays a critical role in helping communities recover, creating jobs, and rebuilding our economy.

Thank you for this opportunity to testify today.

[HUD's joint prepared statement can be found on page 44 of the appendix.]

Mr. HURT [presiding]. Thank you, Ms. Marquez.

Our next witness will be the Honorable Raphael Bostic, Assistant Secretary for Policy Development and Research at HUD.

Thank you, sir. You are recognized for 5 minutes.

STATEMENT OF THE HONORABLE RAPHAEL BOSTIC, ASSISTANT SECRETARY, POLICY DEVELOPMENT AND RESEARCH, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. BOSTIC. Thank you. Chairman Hurt, Ranking Member Gutierrez, and members of the subcommittee, good morning, and thank you for the opportunity to speak today.

The Fiscal Year 2013 budget request for Policy Development and Research (PD&R) is $52 million. This represents an increase over the $46 million that was appropriated in Fiscal Year 2012.

I also oversee much of the transformation initiative book of business. For Fiscal Year 2013, we are requesting a transfer authority of up to $215 million. And our request highlights the flexible use of an estimated $120 million.

In my brief remarks, I would like to take a few moments to highlight how the proposed Fiscal Year 2013 budget continues this Administration's emphasis on delivering effective and efficient programs, and promoting evidence-based policy.

The Fiscal Year 2013 budget request includes important investments to ensure that the Department moves ever closer to these priority goals.

One major effort for the Department has been how it delivers its technical assistance. The Congress has been incredibly supportive of the Department's efforts to better leverage this technical assistance dollar.

A high profile example of this support is for our OneCPD Program, which consolidates many program level technical assistance programs into a single integrated framework that considers the broad needs of a place in developing a technical assistance approach tailored to those needs.

Based on our success with this approach, we again seek funds for OneCPD in this budget proposal.

In addition, we have shaped our request to highlight TA needs in three areas: standardized skills training; intensive space capacity building; and building capacity for new programs and priorities.

As is clear in this request, important needs exist in all of these areas.

An important effort for the Department has been reform of its antiquated information technology infrastructure. That HUDs information and data systems have long been in need of an overhaul has been noted by many, including the Government Accountability Office (GAO).

HUD has been working with GAO to establish new oversight processes for systems development that conform to industry standards. And a September 2011 GAO report validated the fact that significant progress has been made on this front.

However, this progress represents only the first few steps of what will necessarily be a marathon. HUD must continue to make significant investments in IT, and the Fiscal Year 2013 budget request reflects this reality.

Turning to evidence-based policy, with the Congress' help, this Administration has made significant investment to ensure that as much evidence as possible is available to inform the decisions that the Department and our partners make regarding HUD's programs.

For example, past year appropriations have provided funds to support research designed to provide many insights that can help improve HUD's performance in delivering grants and services, and ultimately strengthening communities and increasing family quality of life.

This budget request continues in this tradition.

First, it includes a request to invest in a program, Jobs-Plus, that has been experimentally demonstrated to produce tremendous benefits to those families in the program.

And what did we learn from this? Those in the program saw earnings increase an average of $1,300 per year, providing a firm foothold on self-sufficiency in a time when too many Americans continue to struggle.

Investment in a proven program like Jobs-Plus does not just make sense; it becomes an imperative.

The budget also requests funding to complete existing ongoing research projects as well as support research on key Departmental interests. In the latter category, our request is to support evaluations such as the rental assistance demonstration.

Experience has shown that putting a framework for evaluation in place at the outset of demonstration results in our being able to learn the lessons of those demonstrations in a clearer way. These requests are made with that perspective in mind.

We also seek in Fiscal Year 2013 to advance research in other topics of interest to the Administration and to Members of Congress. These sorts of activities, TA, IT, and research and demonstration, are crucial to HUD's stewardship of its resources.

The reality is that no effective organization, and that includes private sector organizations, remains a high performing unit without: one, monitoring its performance to identify successes and areas for potential improvement; two, training its staff and affiliated business partners to make sure they have the skills to be effective; and three, updating and maintaining its technology to make sure that its well-trained staff can continue the identified successes, and implement policies targeted towards improvement.

Every effective and high-performing operation does these things, every one. And if HUD is to become a high performer and remain so in its own right, it must as well.

Thank you for this opportunity to testify before you today.

[HUD's joint prepared statement can be found on page 44 of the appendix.]

Mr. HURT. Thank you, Mr. Bostic, for your testimony.

Our final witness today is the Honorable John Trasvina, Assistant Secretary for Fair Housing and Equal Opportunity at HUD.

Thank you, sir, for being here this morning, and we will recognize you for 5 minutes for your testimony.

STATEMENT OF THE HONORABLE JOHN TRASVINA, ASSISTANT SECRETARY, FAIR HOUSING AND EQUAL OPPORTUNITY, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. TRASVINA. Thank you, Mr. Chairman, Ranking Member Gutierrez, and members of the subcommittee.

I appreciate the opportunity to discuss with you the current and Fiscal Year 2013 priorities of the Office of Fair Housing and Equal Opportunity (FHEO) at HUD.

Forty-four years after this House's passage of the Fair Housing Act, the Nation has made substantial progress. But we must not be satisfied until housing discrimination is ended in America.

In that regard, we have taken on new challenges since the 1968 law including gender, disability, and familial status discrimination. And most recently, ensuring that HUD housing and HUD programs are open to all irrespective of sexual orientation, gender identity, and marital status.

At FHEO, our employees enforce the Federal fair housing law and work closely through public sector partners, 97 State and local civil rights agencies, the Fair Housing Assistance Program (FHAP), and the private sector, including 120 fair housing councils, legal aid agencies, and community-based organizations in 40 States in the Fair Housing Initiatives Program (FHIP).

In addition to promulgating regulations, issuing guidance, investigating cases, overseeing the FHIP and FHAP Programs, and ensuring that all communities and housing providers know about their rights and responsibilities under the Fair Housing Act and related laws, my FHEO staff members review HUD's own programs and housing to ensure that we abide by the same civil rights requirements and fair housing principles that we expect of State and local jurisdictions, and the private market.

While some discriminatory practices are less blatant and prevalent today, housing discrimination remains in America. Last year, my FHEO staff filed more Fair Housing Act charges than in any year in the past decade, and did this with a staff 25 percent smaller than it was 10 years ago.

And I am proud to report that HUD collaborated with the Department of Justice, which entered into the largest residential fair housing lending settlement ever, providing $335 million in relief to African-American and Latino customers at CountryWide.

Our Fiscal Year 2013 budget request seeks continued support of $41.1 million for the FHIP partners, and $26.4 million for the FHAP partners to further the Department's goal to create inclusive and sustainable communities free from discrimination. Cases that your constituents bring to FHIP organizations benefit from their expertise and screening.

The cases that FHIPs file with my office are twice as likely to result in a charge or settlement as other cases filed directly with us.

Similarly, under FHAP, local and State agencies investigate fair housing cases and make determinations when their law is substantially equivalent to Federal law. FHAPs investigate three-quarters of the cases nationally.

Without this vigorous State and local partnership, our offices would be overwhelmed with cases and would not be able to provide timely determinations for complainants or housing providers.

Two other new facets to our Fiscal Year 2013 budget request are small, but play an important role in improving the quality and availability of our services. We are moving the $1.8 million request for funding of the National Fair Housing Training Academy outside of the FHAP Program in order to expand the number of classes and better serve more of our fair housing partners.

In addition, we request $0.5 million to continue the Department's limited English proficiency initiative which has provided for telephone interpretation, generally, and translation of more than 100 vital HUD documents in up to 19 different languages to better serve housing providers and the general public.

Fair housing testing results show that approximately one in five housing transactions still result in less favorable treatment for racial or ethnic minorities. We recognize that our job requires taking systemic relief beyond one-by-one cases, as we have done, for example, on behalf of women denied mortgages because they were on maternity leave.

Finally, HUD has placed a new priority on compliance of Section 3 of the HUD Act to ensure that our investments create jobs and contracting opportunities for local low-income individuals and the companies who hire them. We have quadrupled reporting on Section 3 compliance. And are pleased that in the last reporting period, almost half of the new jobs created by HUD funds went to Section 3 residents, and $0.5 billion went to Section 3 contractors.

We are continuing our support of HUD-funded government agencies to increase Section 3's impact by funding locally hired Section 3 coordinators, developing a registry for businesses in five pilot cities, and developing a new rule, and we look forward to working with the committee on further action.

And next week, after a year of development and public comment, our Equal Access to Housing Rule will go into effect, which means that lesbian, gay, bisexual, and transgender people will not be excluded from HUD housing or programs or denied FHA back loans because of who they are.

Thank you for your support of fair housing.

I am available to answer any of your questions.

[HUD's joint prepared statement can be found on page 44 of the appendix.]

Mr. HURT. Thank you, Mr. Trasvina, for your testimony.

I now recognize myself for 5 minutes as we enter this period of questioning.

This is kind of a tough question, probably, and I would like to obviously observe our time limits. So, I am going to ask everybody—each one to answer this question.

My concern is this—as I traveled over the last week across the 5th District as a part of our district work week, what I heard from folks who are struggling more and more every day with gas prices—we have extremely high unemployment in my district, in many places it is way more than the national average. People look at Washington and they say, "I have less and less money to spend to feed my family and to get to work. And why is it that you in Washington can't cut spending just 1 percent?" How can we not spend 1 percent less this year than we did last year?

I recognize the important work that you all do. And I also understand the fact that the worse off the economy is, the greater the need is for the services that you provide, but help us with this.

How do I answer that constituent who asks, “Why can’t you spend 1 percent less than you did last year? I am having to spend a lot less than I did last year.”

If I could just go down the line—and I apologize because it is probably a complicated question—but if you could try to make enough time for everybody to be able to answer that question, I will start with you.

Mrs. Galante?

Mrs. GALANTE. Thank you.

Let me just say, I believe that HUD has cut spending in a number of places. I know in the Office of Housing in the Project-Based Rental Assistance Program, we are saving $400 million to $500 million in this budget by different regulations that save dollars for the Federal Government. So, there are savings.

The other thing I would say, however, is in some of the rental assistance programs, because of the stresses that these renters are under, and some of their incomes are going down, that may mean that our subsidy amount is going up.

And so, we are filling a safety net issue for some of these renters that makes it difficult to control those kind of expenditures.

Mr. HURT. Thank you.

Ms. Henriquez?

Ms. HENRIQUEZ. Thank you. I would echo Mrs. Galante.

But I would also say that when we as a nation put money together so that we don’t have homeless individuals and families, particularly our veterans and people who serve this country, on the street, at risk, in jeopardy, that is dollars well-spent.

And so, we too, in public housing, have saved money, but we have also then said we want to make sure that everyone who is served now continues to be served. And our programs really rely on market forces as well.

Mr. HURT. Thank you.

Ms. Marquez, how do I answer that constituent who asked me that question?

Ms. MARQUEZ. Thank you.

First, let us clarify the HUD budget as a good response. Our budget provides $44.8 billion for HUD programs, an increase of $1.4 billion or 3.2 percent above Fiscal Year 2012.

This program funding level is offset, however, by $9.4 billion in projected FHA and Ginnie Mae receipts leaving net budget authority of $35.4 billion, or a 7.3 percent below the Fiscal Year 2012 enacted level of $38.2 billion.

So, we have cut.

Speaking for CPD, I can tell you that we have streamlined in many areas.

My colleagues spoke about OneCPD, how long—what we have done to streamline all of the ways that we provide technical assistance.

We have also seen a decrease—we took a decrease—requested a decrease in S&E as we have come forward to streamline. This is a time when we are all making sacrifices, and HUD is fully committed to shoulder its share of the burden.

Mr. HURT. Thank you.

Mr. Bostic?

Mr. BOSTIC. I would agree with my colleagues.

And I would also just emphasize that these are incredibly difficult times for everyone. The Secretary has given us a direct charge to make sure that we scrub every program, everything that we do, to make it as efficient and as effective as possible.

I will just highlight a couple of places in terms of administrative fees for housing authorities.

My office is in charge of doing a detailed analysis to find out what the best practices are so we can reduce our costs in terms of how we operate our programs. Those things happen across-the-board. And we are committed to the realities that we are going to have to do more with less. And that is the message we get.

Mr. HURT. Thank you.

I have about 30 seconds.

Mr. TRASVINA. Mr. Chairman, I would say that we are spending less, but also spending better.

Now, I have been to your district, to the beautiful art building downtown, talking to your constituents about Section 3, making sure that HUD dollars that are going to the community aren't just going to the infrastructure, but they are going to the people, and being able to provide local programs to hire public housing residents, low-income residents, as well as contracting opportunities for the companies right in your district.

That extends the impact of HUD dollars.

Mr. HURT. Thank you very much.

It is now my pleasure to recognize the ranking member, Mr. Gutierrez, for 5 minutes.

Mr. GUTIERREZ. Thank you very much.

Assistant Secretary Marquez, the Administration has proposed a $2 million reduction in funding for housing opportunities for persons with AIDS.

How many fewer people will be served? And has it been demonstrated that HIV interventions are less effective when the individual does not have stable housing?

Currently, there are 145,000 households in need that go unserved. How will HUD meet this need with a reduction in funding?

Ms. MARQUEZ. Thank you for the question.

The HOPWA Program this year, I think, comes full circle. We are working with the Administration and many other agencies on an integrated approach for our first Federal plan on dealing with folks and helping them.

I think—we are not going to serve less. I think what is important is where we are focusing.

Part of what is going on here is that we are asking for a change in the formula so that it more specifically focuses on where the need is. So, we are updating. We are going to continue to focus in on the lowest-income folks.

In fact, our program very specifically targets those who are extremely low income. So, we are taking care to help them and to understand that someone who is struggling and moving forward with HIV doesn't just need housing; they need all the other services that come from an integrated approach.

Mr. GUTIERREZ. Yes, and that is why it surprises me that given inflation and given the higher cost and the higher demand, and the fact that 140,000 people go unserved, that you would reduce that part of the budget. Especially when I take into consideration your comment about how you have reduced it 7 percent, taken other incomes that are coming in that at a time that we would reduce that.

So, that is one point.

Secondly, to Commissioner Galante, HUD has proposed a $10 million increase in funding for housing counseling. But that $55 million is still far below the $87.7 billion for Fiscal Year 2010.

Can you explain to us how—given that you are going to come into money, especially $1 billion, that you would spend less money on counseling when people will probably need it?

I guess that is the reason everybody agreed to the $25 billion because they were screwing people over if they wouldn't have agreed to the $25 billion. And some of us even believed that the $25 billion really doesn't go far enough.

So, how is it that you are going to have less money this year for housing counseling?

Mrs. GALANTE. Thank you for the question.

Let me just say that we do believe in the importance of housing counseling and know that housing counseling has a great effect on borrowers and their decision-making, particularly through the loss mitigation process.

We are working hard to ensure that the new Office of Housing Counseling, which we are in the process of setting up, will be operated efficiently and get the money out quickly to the grantees.

And, the $55 million is in the category of a tough choice. We obviously would like to provide even more housing counseling dollars.

However, I would say that we are working with the State attorneys general on that settlement agreement. As you mention, there are significant dollars in the settlement that can be used separately from HUD's housing counseling program to fund housing counseling agencies—

Mr. GUTIERREZ. I would think that would probably be a wise choice of the dollars, given that you are decreasing the amount of money that you are targeting to counseling.

I think counseling, as you and others who have come before this community from HUD have testified, is very cost-efficient and very important in order to keep people in housing.

So, I just have a little bit—there is some other stuff here, especially given the fact that—the minimum rent. HUD had one standard and PHA had another. They were 50. You guys had 25.

For 14 years, you guys had 100 percent less minimum rent. And now, you are telling everybody there is going to be no discretion.

And I know that a lot of people just tend to think that it is not a lot of money, especially if you make, like a Congressman, $725 a day. It doesn't seem like a lot of money.

But for someone who makes less than $250, I would hope that you would take a look at that. Otherwise, we are going to continue to hear—and you are going to continue to hear from people who say, "There are all these people in the Section 8 Program, and if they would simply move off the Section 8 Program so that other people could get on the Section 8 Program, it would be a great Section 8 Program."

That is kind of like saying, there are all these sick people, and there is only so much money to cure them. So, let us stop curing them. Get those people off who are sick. Let us get those people off who need an education. Let us get those people off.

So, I just hope that we could do that and look at it that way.

Thank you very much.

Mr. HURT. Thank you, Mr. Gutierrez.

I now recognize the gentlelady from West Virginia, Mrs. Capito, for 5 minutes.

Mrs. CAPITO. Thank you, Mr. Chairman.

I want to thank the witnesses as well.

Mrs. Galante, we have talked a lot about HUD's capital ratio, the concerns that we all have on this committee and that the Administration has as well.

The budget, the 2013 budget, shows a potential draw-down of the Treasury of $688 million.

Am I understanding this—so, first of all, my main question is, is FHA broke? That is a concern in simple language.

But is the $688 million that is reflected in the budget, is that the hole that is being plugged by the $1 billion servicer agreement, and if that is the case, what about next year?

What are you looking at as you look over the rainbow a little bit?

Mrs. GALANTE. Thank you for the question.

This is confusing information. And so just to be clear, FHA is not broke.

The capital reserve is a $688 million would be to essentially top off a capital reserve for expected 30 years' worth of claims. So, we have currently $33 billion in an account for paying claims.

The budget had projected that in order to meet our full obligations over that 30 years, we would need to draw $688 million to put into the capital reserve account.

And as a result of the work that we did on the settlement, as a result of the premium increases that we talked about and announced yesterday, that will more than fill that gap for Fiscal Year 2012.

But also if you look at the budget, the projection for where the capital reserve account will be by the end of 2013, with all the book of business we are doing throughout 2012 and 2013, and with all the premium increases baked into the budget plus the additional ones, we expect to be at a capital reserve of $8 billion by the end of 2013.

That still isn't up to the 2 percent. But it is significant progress.

Mrs. CAPITO. So, do you anticipate that 2014 will have another shortfall projected? Or can you tell?

You are saying that—but if you combine the $1 billion servicing agreement along with the fee increases, that should put you over the hump to then move forward for the next 30 years after—on a sight unseen of what the future but—

Mrs. GALANTE. Yes. So, that is correct—

Mrs. CAPITO. Okay—

Mrs. GALANTE. Again, I do want to say that we are in a dynamic situation and economy here. We do look at these numbers on a regular basis. We do the actuarial study where we will again look at what the house price projections are, what interest rates are.

And all of those things will factor into our future projections of what we need in the capital reserve account.

Mrs. CAPITO. So, the most precarious FHA loans are the ones that went forward in 2006, 2007, and 2008? What are you finding in terms of the default rate? Is it rising? Is it falling? Is it steady?

Mrs. GALANTE. Our default rate and our delinquency rate on the new book of business is—

Mrs. CAPITO. New book being after—

Mrs. GALANTE. I would say the second half of 2009 forward essentially. 2009 was a bit of a transition—

Mrs. CAPITO. Right.

Mrs. GALANTE. —year. So, the second half of 2009 and 2010, 2011, and 2012 have very low early payment default rates compared to previous years where I think it was 0.37 percent in 2011 compared to 2.5 percent in early payment default in those other years that we talked about.

And delinquency rates—seriously delinquent loans again even if the—with the same seasoning effect are substantially lower for this newer book of business.

Mrs. CAPITO. So, I guess—I didn't mean to interrupt, but I am kind of running out of time here.

What I am wondering here is as you look at the current book of business from 2006, 2007, 2008, and the first part of 2009, are those defaults and delinquencies growing, or are they staying steady as to what they were say last year from that book of business?

In other words, are those getting worse as time goes on, or are they steadying out?

Mrs. GALANTE. We have projected those loss rates and the delinquency rates. Part of the issue right now is they have been persisting. There are loans that are 90-plus days delinquent that haven't gone to foreclosure. They are kind of stuck.

But generally, I would say they are not getting better at this point. And we have projected substantial losses from those books.

Mrs. CAPITO. All right. Thank you.

Mr. HURT. The gentlelady from New York, Ms. Velazquez is recognized for 5 minutes.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Mr. Bostic, the agency proposed to combine the public housing capital and operating funds into a single funding subsidy. And is it possible that this will shift the focus away from tenants' needs, and allow housing authorities that are facing budgetary constraints throughout the country to divert limited resources to overhead and administrative costs?

How can we ensure that the needs of repairing and tenants are addressed?

Mr. BOSTIC. I actually think this is a question better directed to Secretary Henriquez.

Ms. HENRIQUEZ. Thank you for the question.

The ability of our requests to have housing authorities combine operating and capital so that they can meet for eligible expenses on the operating side and the capital side, we don't see this as diverting money from the capital.

Capital needs remain—

Ms. VELAZQUEZ. —the possibility that it could happen.

Ms. HENRIQUEZ. So, I would never say it will never happen. But I think we have tools and monitoring and assessments in place to prevent that from happening.

The capital needs are real. And housing authorities' first and foremost mission is to make sure that their residents are housed appropriately.

We have created a number of tools, peer-to-peer, comparability tools, so that we can go in, we can assess and look at how money is being spent, making sure that it is spent appropriately and that the unmet capital needs do not continue to increase disproportionately to the amount of money available.

I would also say that currently, housing authorities of 250 units or less already have the ability to merge and use their capital and operating together. And what they find when they do that is generally a shift to try and amass enough cash so that they can do capital work that is significant to enhance their properties moving forward.

We score them. We monitor that on an annual basis as well, so we can keep track of how things are going and what those portfolios look like, and how those units are being improved.

Ms. VELAZQUEZ. I have no issue with that. I just want to make sure that oversight is going to be in place. And that the tools that you have will be used to make sure that you monitor the situation.

Ms. HENRIQUEZ. We agree with you.

Ms. VELAZQUEZ. Ms. Marquez, in the Fiscal Year 2013 budget, Community Development Block Grants will be flat funded at $2.6 billion. However, this is $300 million less than Fiscal Year 2011.

My question is, how will basic services in cities like New York be affected by continuing this cut to a program that has helped revitalize and empower communities, especially urban communities, through job creation, economic development, and expansion of homeownership?

Ms. MARQUEZ. Thank you for the question.

There is no doubt that local communities are feeling a very powerful pushback from the cut in funding. And there is no question that HUD was faced with very difficult choices this year.

As your question to Assistant Secretary Henriquez really does point out, our focus is first on ensuring appropriately safe housing for those for whom we already have this responsibility.

Having said that, for CDBG this year flat funding, what we are committed to making sure is that we are providing all the help necessary to help local communities make smarter choices, streamline when necessary, restructure.

Assistant Secretary Bostic spoke about OneCPD. We have spent the last 2½ years completely revamping how it is that we actually help local communities with professional cutting-edge consulting and technical assistance.

So, OneCPD is already fully functional. We are in many large and small places helping them take a look at their markets.

But at some point, you are correct that it is not enough just to be efficient. They will have to reprioritize. And there will be some things that they can't do—

Ms. VELAZQUEZ. So, you agree with me that at a time when the economy is still fragile, and we are not creating the jobs that we need in order to get the economy to grow, this is not the time for this investment in programs that provides jobs, that creates jobs, and revitalize our communities?

Ms. MARQUEZ. I agree with you that had we had any other choice to make, we would not be cutting CDBG and the HOME Program.

Ms. VELAZQUEZ. Maybe we need to look into closing tax loopholes, and that will give us the revenues that we need.

Thank you, Mr. Chairman.

Mr. DOLD [presiding]. The gentlelady yields back.

The Chair recognizes the gentleman from California, Mr. Miller, for 5 minutes.

Mr. MILLER OF CALIFORNIA. Thank you, Mr. Chairman.

I want to thank all of you for your testimony. I know you are in a difficult time, and you said difficult times in your opening statement. These are tough times for our industry out there.

And I agree. You need to reduce the risk to taxpayers. Mrs. Galante, you mentioned that, and I support you in that.

Fee increases, if they are applied to safety and soundness and making sure the FHA is solvent, I think that is a reasonable approach. But there are some problems I have with the way the system is structured.

I support Section 8. I think Section 8 needs some reforms, but I have always been supportive. So, I am not your opponent up here. Don't get me wrong there.

But people move from Section 8, usually to apartments. They move from apartments to condominiums, townhomes, and then move to single family homes.

And the problem I have is the structure that you are applying to loans today. Between the GSEs and FHA, you are the only group in the market. If it wasn't for you, we would be in serious trouble. And if it weren't for the GSEs, there would be no money out there available.

But if you look at the residential marketplace, the majority are built under a non-Davis-Bacon period. If you are looking at the commercial/industrial, the vast majority are built under Davis-Bacon. So we wouldn't be arguing that on commercial/industrial.

But your mandate is that a builder who wants to go out and finance a construction project through FHA must build in a Davis-Bacon rule. So an apartment complex, let us say if a unit costs $60,000 to build, based on what it is costing today, that apartment is going to cost $72,000 to $75,000 to build today. If you are dealing with a condo that would cost $80,000 under non-Davis-Bacon, you are talking about $96,000 to $100,000 to build it under Davis-Bacon.

But when you say we need to reduce the risk to taxpayers by the mandate of Davis-Bacon, you are increasing the risk to taxpayers. Because if you increase the cost that you are financing, if something goes wrong, you are picking up the losses.

So, if we are really trying to help people at the bottom end to get out of Section 8, and to help more people, then they are going to the next level; by increasing the cost of construction, you are increasing the risk. By increasing the cost, you are increasing the risk to the taxpayers.

And that doesn't make any sense to me why we are doing that. If forcing privately financed projects to be subject to Davis-Bacon is driving up the cost and decreasing affordability, why does Davis-Bacon have to apply to FHA?

Mrs. Galante, maybe you can explain that to me?

Mrs. GALANTE. Thank you for the question.

There is no doubt that in order to have appropriate wages paid on construction projects that may cost more—

Mr. MILLER OF CALIFORNIA. Wait, wait, let us stop right there.

If the vast majority of residential projects, and it is without a doubt the vast majority of them, what you write, are non-Davis-Bacon. That is a fact.

The vast majority of commercial/industrials are Davis-Bacon. I won't argue that.

I am not against you. That is not what I am saying. But your mandate increases costs, increases the loan amounts, and thereby if something goes wrong, increases the risk.

Your job is to make sure you are accountable to the taxpayer to be able to serve the most people you can serve out there, and decrease the risk, decrease the cost, and make sure the FHA is solvent.

But what you are doing is counter to solvency. So, I don't want to get into your argument. Your job is not to determine what the construction industry does. That is the construction industry's job.

Your job is to make sure you write safe and sound loans.

How can you justify increasing the costs, thereby increasing the risk, when if you are going to conventional lenders, they don't do that? But there are no conventional lenders out there today in the marketplace—that is my question.

I am not trying to be mean. I am just—that is not your concern. Your concern is making the safest loans you can make. Is that not true?

Mrs. GALANTE. Absolutely—

Mr. MILLER OF CALIFORNIA. And making sure that FHA is solvent. Is that not true?

Mrs. GALANTE. Absolutely.

Mr. MILLER OF CALIFORNIA. Then, please address that. That is my question—

Mrs. GALANTE. Let me just say, the developments are underwritten based on their—not just their construction costs, but also their economic value based on their rent. So, we are looking at an appropriate value for that property based on appraisal, based on underwriting techniques. So, we are taking that into consideration when we are insuring these loans.

Mr. MILLER OF CALIFORNIA. Okay. But the other side is if you do build a unit under conventional financing, 3 years later you can finance it through FHA.

And there is no doubt there is a benefit to the FHA loan guarantee. You will get a better rate, because the lender knows there is a guarantee at the end.

So, if it is good 3 years later, why isn't it good from the onset, when you could reduce costs and provide more affordability?

Mrs. GALANTE. Again, I need to say that this is a longstanding important policy of the FHA to encourage this kind of—

Mr. MILLER OF CALIFORNIA. And I think that is good. But some policies have gone wrong.

You coming back to Congress and saying that your default rate has reduced your reserves to the level they are at, means something needs to change. And I would strongly encourage you to look at this and look to Move to Work.

And I am out of time.

I yield back. Thank you very much.

Mr. DOLD. The gentleman yields back.

The Chair recognizes the gentleman from Texas, Mr. Green, for 5 minutes.

Mr. GREEN. Thank you, Mr. Chairman.

And thank you for allowing me to be a part of the subcommittee. I also thank the witnesses for appearing today.

Ms. Marquez, I would like to thank you especially, because I am most appreciative for the hands-on approach that you have taken to resolving some of the concerns that we have.

I especially thank you for working with our Houston Housing Authority. It means a lot that you have embraced it the way you have. So, thank you very much.

Mr. Trasvina, I want to thank you for the report that you have given concerning the language translations. I think it is important.

In my district, the ballot is printed in four languages: English; Spanish; Vietnamese; and Chinese. And it is printed in these languages for citizens so that they can make intelligent choices when they are voting.

And it seems appropriate that people who need counseling, people who may be at risk of losing a home. would have an opportunity to make some intelligent choices by having language that they can understand.

So, I thank you for your report.

I would like to move on to something that is somewhat rhetorical. It may not require a response. But we have a lot of people approach us with questions.

And I rarely have people approach me and say, "Why are you spending so much money on poor people?" As a matter of fact, I have never had anybody approach me about overspending on poor people.

I have never had anybody approach me about families making $250 a month, which is about $3,000 a year. With this increase, they will be paying a third of their income, $75, a third of their income, 30 percent of their income toward their rent.

But these are people who legitimately are making $250 a month. And it is hard for some, I think, to understand that there are people who actually have families and are making $250 a month.

We live in a world here that doesn't allow us to always go into areas where there are people who really do make $250 a month—

a lot less, to be quite candid, for some others. And they really do need help.

This country is not ultimately going to be measured by how many millionaires we lend money to. My suspicion is that when people look back through the vista of time, the question will be, how did you treat people who were living in the streets of life, as opposed to people living in the suites of life?

So, doing things to help poor people has never really been a question that I have had a lot of people ask me.

Here is what I have had people broach with me. People ask me, "Why is it that people who make over $1 million a year get all of the breaks?" This is what I hear.

Now, we know that they don't get all of the breaks. But people want to know why is it that people who make over $1 million a year can't pay a little bit more when they have had a reduction in the rate that they pay, why can't they pay a little bit more on what they make over $1 million a year?

Some things bear repeating.

We are not talking about what they make up to $1 million. But let us talk about what they make over $1 million a year.

Why is it that people who make over $1 million, who have a tax rate that is lower than their secretaries and other persons who work with them, why is it that you can't raise their rate so that they can pay a little more, given that they at one time paid this little more that we are talking about, and the country did quite well?

This is the kind of thing that people approach me with. And quite frankly, I don't expect any of you to answer the question. I just want to put things in a different perspective, so that we can understand that this is about this country, not just about poor people getting all of the breaks.

There are poor people who need these services that are being provided. And this is what separates America from the rest of the world to a certain extent.

There are some other countries that do well. But we treat people who are not in the best of circumstances with a degree of dignity and respect. And I respect what you are trying to accomplish with this budget.

I thank you for the time, Mr. Chairman, and I thank the witnesses for appearing. I yield back.

Mr. DOLD. The gentleman yields back.

The Chair recognizes himself, at this point in time, for 5 minutes.

And I certainly want to thank the witnesses again for taking time to join us today, and for the work that you are doing.

Last October, the Washington Post published an article detailing some of HUD's condominium regulations and the damage that they were inflicting on the condominium owners, sellers, buyers, and association members.

These regulations included prohibiting condominium purchases in a property with more than 25 percent of commercial space, even though HUD seems to also be promoting a town center model.

HUD also prohibits condominium purchases if more than 15 percent of the association dues are delinquent for 30 days, regardless of the association's financial health, and even though bank-owned units always get paid off when the unit is sold.

And many State laws prevent the association collection actions until dues are 90 days delinquent.

HUD also requires that 50 percent of the units on a property be owner-occupied. And this ratio includes bank-owned properties. This policy makes it very difficult to reach. The ratio is those who can't sell quickly are forced to also rent out their units.

Finally, association board members are subject to severe personal liability if they make any mistakes in the time-consuming, expensive, and complicated certification process, which generally means that they won't even attempt to certify their units.

Meanwhile, my understanding is that FHA's condominium portfolio is performing better than the single family home portfolio. And condominiums are frequently the most affordable option for first-time homebuyers.

So, what is the purpose of these seemingly severe and counterproductive restrictions?

Is there anyone reviewing the sensibility and efficacy of these condominium regulations?

Mrs. Galante, we will start with you.

Mrs. GALANTE. Yes, thank you very much for the question.

And let me just start by saying that there is no reason you would know. I actually was involved in building and managing and financing condominiums in California for a number of years. So, I do understand the importance of condominiums to first-time homebuyers and to the market in general.

And I would say that there was a group of proposed rules on condominiums that were consolidated and proposed. Since I have come in, I am looking at a number of these issues very closely.

We will be issuing a proposed regulation that will be able to get public comment on. In the meantime, we had put out this mortgagee letter that had some of the restrictions and issues that you raise.

And again, I will just commit to you here without going through every one of them, some of these, I think, we can make some adjustments in. There are others that, frankly, we do have to walk an important line here in terms of ensuring that the condominiums in which there are FHA-insured loans are stable operating concerns, because there obviously is a concern about the risk of that for the FHA fund.

Mr. DOLD. Okay, good. I am delighted to hear that.

My next question relates to the Fair Housing Discriminatory Effects Standard, a proposed rule issued for comment last November 16th.

As I understand the proposed rule, HUD takes the position that the Fair Housing Act provides for the liability based only on discriminatory effects without requiring any finding of actual discrimination.

And in the preamble, HUD provides examples of housing policies or practices that may have a disparate impact. One of these examples is: "the provision and pricing of homeowners insurance."

At the same time, though, the McCarran-Ferguson Act of 1945 clearly gives State regulators jurisdiction to regulate homeowners' policies. Which includes: the provision and pricing of homeowners insurance."

So, it seems that HUD's recent proposed disparate impact rule regarding homeowners, and more specifically homeowners insurance, conflicts very directly with well-established Federal law leaving such regulations to the States.

This leads to my questions, which I will kind of make into a three-part question.

First, what is HUD's intent in issuing the proposed rule? And what objectives does HUD intend to accomplish with it?

Second, does HUD's intent interfere with the way the State-regulated insurers underwrite homeowners insurance?

And third, in its final rule shouldn't HUD clarify that HUD is not exceeding its legal jurisdiction, and is not infringing on other State regulator jurisdiction by clearly stating that this rule doesn't apply to State-regulated insurance products such as homeowners insurance?

Mr. TRASVINA. Mr. Chairman, this rule is—the disparate impact rule that, as you know, was promulgated in November of last year is intended to clarify the coverage of actions taken of policies and practices taken that have a disparate impact on the protected classes and under the Fair Housing Act.

This essentially makes clear what every circuit court of appeals that has reviewed the coverage of disparate impact has already declared, which is that disparate impact standard is covered under the Fair Housing Act.

It also establishes what the real requirements of a complaint must show, and what a defendant can show as a defense, as these cases are going before the courts.

On the issue of insurance, insurance has always been covered under the Fair Housing Act, and in your part of the country in Illinois, in the 7th Curcuit, Judge Easterbrook made it clear that the Fair Housing Act covered insurance issues.

So, we do not see it as going into a new area or an extension of the current parameters of the Fair Housing Act.

Mr. DOLD. We might have a little bit of a disagreement on that, but my time has expired.

The Chair recognizes the gentleman from North Carolina, Mr. McHenry.

Mr. MCHENRY. Thank you, Mr. Chairman.

And to follow up on the chairman's question, Assistant Secretary Trasvina, has the Supreme Court ruled on disparate impact?

Mr. TRASVINA. All of the circuit courts have ruled.

Mr. MCHENRY. So, the answer is no?

Mr. TRASVINA. The answer is no.

Mr. MCHENRY. Okay. Are you familiar with the City of St. Paul's decision to withdraw their petition for review from the Supreme Court?

Mr. TRASVINA. Yes.

Mr. MCHENRY. The *Magner* v. *Gallagher* case.

Mr. TRASVINA. Yes.

Mr. MCHENRY. Did you have any interaction with or consultation with the City of St. Paul in that process?

Mr. TRASVINA. No.

Mr. MCHENRY. Has anyone at HUD had conversations in that regard with the City of St. Paul?

Mr. TRASVINA. I am not aware of any conversations with the City of St. Paul on that matter. We have worked with the City of St. Paul on a number of matters related to fair housing.

In fact, we are about to add them to our Fair Housing Assistance Program because they have a substantial equivalent for a housing law.

Mr. MCHENRY. Have you had any conversations with former Vice President Mondale who apparently, according to press reports, did connect and reach out to the City of St. Paul and request that they withdraw their petition to the Supreme Court?

Mr. TRASVINA. I would love to have talked to Vice President Mondale, but no, I have not.

Mr. MCHENRY. Okay, all right, good answer. That is good.

But do you—apparently the City of St. Paul believed that they would have won the case at the Supreme Court level, and that was regarding the disparate impact analysis rule within HUD.

Do you agree?

Mr. TRASVINA. I take the mayor of St. Paul—whom I have been in press conferences with—at his word and his attorney's word that the issue for them was not to narrow the Fair Housing Act. They were dealing with a situation that his predecessors had brought up in previous years to deal with conditions of rental housing in St. Paul.

So, I don't think their intent was to narrow the Fair Housing Act. They were going to take this matter to court. And it will be decided there.

Mr. MCHENRY. Okay. Are you aware of HUD, DOJ, or any other Federal entity providing advice or influence to the City of St. Paul on this matter?

Mr. TRASVINA. I am not aware of any advice or influences being given.

Mr. MCHENRY. Do you have any concerns in terms of your regulatory movement within your oversight about codifying the disparate impact analysis and what the legal ramifications would be and the uncertainty that it would create?

Mr. TRASVINA. No, in fact quite the opposite, Congressman.

Having a regulation will clarify, again as I said, what the 10 circuit courts have already ruled. They will give due notice to complainants and to respondents what—how we will examine Fair Housing Act disparate impact matters under the Fair Housing Act. And it will give them due notice as to what kind of evidence they need to provide and what kind of defenses they have available.

Mr. MCHENRY. Okay.

Mr. TRASVINA. It will bring clarity rather than bring confusion.

Mr. MCHENRY. So, do you believe that use of the disparate impact claim under the Fair Housing Act has solid legal ground?

Mr. TRASVINA. As I said, it has been upheld by virtually every circuit court that has reviewed it, yes.

Mr. MCHENRY. Okay. Mr. Chairman, if you wanted to continue your line of questioning on that, I would be happy to yield back to you.

Mr. DOLD. I thank the gentleman, but I am good at this point.

Mr. McHENRY. Okay. Thank you for answering these questions.

And with that, I would like to ask unanimous consent to submit for the record a Wall Street Journal piece from February 12, 2012, entitled, "Squeezed in St. Paul," that details that under pressure from the Obama Administration, the City pulled their Supreme Court case, the *Magner* v. *Gallagher* case, on the disparate impact claim.

Mr. DOLD. Without objection, it is so ordered.

Mr. McHENRY. Thank you.

And with that, I yield back the balance of my time.

Mr. DOLD. The gentleman yields back.

The Chair recognizes the gentleman from Georgia, Mr. Westmoreland, for 5 minutes.

Mr. WESTMORELAND. Thank you, Mr. Chairman.

I just want to ask my friend from Texas one quick question about clarification. When you said people make $250 a month, are you talking about from wages?

Mr. GREEN. Speaking of the persons who are impacted with the $75 and their families, they are making $250 per month. Or that is what they have as an income.

Mr. WESTMORELAND. But you used the word "make." Is that from wages or is that just from income?

Mr. GREEN. Quite candidly, I don't have the information as to how they make the money. I can draw some assumptions, but I don't have actual evidence of how they make it.

Mr. WESTMORELAND. Thank you, sir.

Mr. GREEN. Thank you.

Mr. WESTMORELAND. I was reading the testimony, and I know that you all did a combined testimony.

On page three, it talks about the hundreds of thousands of jobs that this budget creates. How did you come up with the numer of jobs? And do you have an exact figure? Hundreds of thousands of jobs is a lot of jobs. And I was just wondering if any of you has an answer as to exactly how many jobs it was and how you came up with the estimate.

Mr. BOSTIC. I would be happy to speak to that—

Mr. WESTMORELAND. Yes, sir—

Mr. BOSTIC. —and I thank you for the question.

I can't tell you an exact number today, but I can get that information for you.

My staff has—

Mr. WESTMORELAND. What do you think? Is it 100,000, 200,000, 300,000, 400,000?

Mr. BOSTIC. I don't remember the exact numbers. It is several hundred thousand. And I can get you an exact number.

But let me just explain sort of what we do. We have some details and physical models that look historically at what has happened with certain sorts of activities, and how that is translated into job creation. And we have compiled that information, crunched some fairly detailed models that my staff has taken quite some time to develop. And it offers projections and estimates about what certain sorts of activities should generate in terms of jobs.

It also incorporates some of the spillover effect. So as you know, when there are jobs that are created, there are other support sorts of activities that will emerge to help make sure that those jobs are successful.

So, the model incorporates all of those things. And we spend a fair amount of time going back and forth with a number of experts both in academia and labor fields and the like, to try to validate that.

Mr. WESTMORELAND. If you can come up with those numbers, like I said, whether it is 100,000, 200,000, 300,000, 400,000, I just think it would be interesting to find out how many jobs it is, and what creates them within the budget.

I know from reading some of your biographies that at least one person on the panel has had some involvement with the Community Reinvestment Act. And a lot of people believe that was a leading contributor to the mortgage crisis that we have had, was the fact of really some people being able to get loans who shouldn't have qualified. And maybe some things have been adjusted to do that.

And on the same page, on page three, when you are talking about ensuring every American plays by the same rules, it mentions homeownership opportunities. Are we going back to some of the Community Reinvestment Act? And are we looking at homeownership opportunities by lowering some of the standards for getting a home loan?

Mr. BOSTIC. That is a multipart question, so, let me speak to them in pieces.

First, to the charge that CRA caused the housing crisis, I actually don't think there is very much evidence to support that.

If you look at the source of—to the uncertainty, subprime loans, no-doc loans, all the crazy stuff that we have acknowledged, much of that was done by institutions, particularly in the early years, that were not even covered by CRA. So, the rush into that sort of product and the expansion of that was unrelated to CRA. And so, I think that the claim that CRA caused the crisis is somewhat misplaced.

The second thing I would say is that it is really important to understand that homeownership that doesn't work is a disaster. This Administration has been fairly clear from the outset of its time here that sustainable homeownership is what we are seeking. And that reducing standards just to get people into a house, such that homeownership fails 6 months or a year from now, is a bad idea. We certainly don't want to do that.

I have a great deal of confidence that we are not going there. And we will make sure that when people get to homeownership, it is in a way that they can stay there and we don't see the disruptions that we have seen in years past.

Mr. HURT [presiding]. Thank you, Mr. Bostic.

Thank you, Mr. Westmoreland.

Mr. Stivers from Ohio is recognized for 5 minutes.

Mr. STIVERS. Thank you, Mr. Chairman. And I have some questions mostly for Mrs. Galante.

You said earlier, in an answer to Representative Capito, that you didn't think FHA was broke. But I am really worried about the exposure to the taxpayers. I do have some questions, many of which are answered in your testimony. And the first couple are pretty simple "yes or no" questions.

FHA is congressionally mandated to maintain a 2 percent capital reserve ratio in the Mortgage Insurance Fund. Is that correct?

Mrs. GALANTE. That is correct.

Mr. STIVERS. And in 2010, that capital ratio was at half of 1 percent. At the end of last year, there was the GAO report that found it at about 0.24 percent or about a quarter of 1 percent. Is that correct?

Mrs. GALANTE. It was actually the independent actuary.

Mr. STIVERS. Oh, I am sorry, the independent actuary—but is that about where you would say it is today, at about a quarter of 1 percent—0.240, I think, is what I saw.

Mrs. GALANTE. That is correct.

Again, that actuary is done once a year and is based on a variety of economic inputs including how much insurance enforcement we have. So, it is not possible, like on a monthly basis, to—

Mr. STIVERS. I understand.

So, if that is not broke, I guess, is it not broken until it gets to zero? Because we lost half the value of the reserve fund last year, and if we lose at the same rate this year, it will be at zero or below.

I understand there is the settlement agreement with the servicers. And you are finally raising your insurance rates.

But what does constitute "broke" if that is not "broke?"

Mrs. GALANTE. Again, to be clear, the capital reserve account is—and the 2 percent is for "Excess reserves beyond what the actuary predicts we need for 30 years' worth of losses."

So, we do have some $30 billion in our account to pay for losses.

I am not saying that it is a good place to be on the edge—

Mr. STIVERS. Right, but it is congressionally mandated. It is the law of the land that you have to have 2 percent.

My next question is—and maybe I am wrong about this—but I believe in 2009—and I wasn't here in 2009—Congress gave FHA the authority to raise their rates.

You are finally going to raise your rates by 10 basis points this year on basic loans, and an extra—on jumbo loans. But the way my math works, you are actually authorized to raise your rates by about 30 basis points on all loans this year.

And if your financial condition is where it is, and you are not meeting the 2 percent law that you are required to meet, why are you not raising your rates by the maximum allowed under law?

Mrs. GALANTE. Yes, thank you for the question.

Let me just say, it was in 2009 when we got additional flexibility to raise our premiums. We did not have it before then. We have more than doubled our rates since then. What is in the latest budget is just the additional amount.

Mr. STIVERS. But you haven't raised it the maximum amount every time you can?

Mrs. GALANTE. We have not. And let me just explain why we have not. Because there is an important tenet here, which is we do want to raise the premiums as one place to go in terms of ensuring the health of the fund.

But we are raising premiums on new borrowers to essentially deal with problems of the past. And at some point, you get into a very difficult situation in terms of the impact of that on borrowers and on this market that is in a very fragile recovery.

So in our judgment, we are doing everything we can by raising premiums, by going after lenders, and ensuring that we are covering dollars that way, by ensuring that our REO process is recovering what we should be recovering through that.

And so, we are using multiple measures, not just premium increases, to ensure that we will get the fund back to the capital reserve of 2 percent.

Mr. STIVERS. Right. And, there are three parts of the mortgage market: Fannie Mae and Freddie Mac; the private market; and FHA. Fannie and Freddie have raised their guarantee fees (g-fees) already. And you have not actually even kept up with the raises in the g-fees that Fannie and Freddie.

So, doesn't that actually just drive volume to FHA, and make FHA potentially even more vulnerable over time because you are not raising your rates to an actuarially sound point?

Mrs. GALANTE. Again, I would, I guess, need to differ somewhat on whether what we are doing is actuarially sound. We believe that again—

Mr. STIVERS. Can private mortgage insurance match your rates?

Mrs. GALANTE. Pardon me?

Mr. STIVERS. Can private mortgage insurance match your rates?

Mrs. GALANTE. I don't believe they are doing so. But—

Mr. STIVERS. Do you think that they are—are you saying that they are doing something that is more than actuarially sound then?

That is what I would use that as a—certainly as a measure to say what is actuarially sound is what happens in the private marketplace. And government has a really bad history of mispricing risk.

I know my time has expired. But I would ask you to take a serious look at that.

Thank you, Mr. Chairman. Sorry for going over.

Mr. HURT. Thank you, Mr. Stivers.

We now recognize Mr. Neugebauer from Texas for questions for 5 minutes.

Mr. NEUGEBAUER. Thank you, Mr. Chairman.

Secretary Marquez, as you know, our oversight committee had some hearings looking into the HOME Program.

And on November 15th, we sent your office a request for some information that we felt would give the committee a lot more insight into some of the things that you are doing and the agency is doing to make some corrective action for some of what we felt were the deficiencies.

Now, the response that your office gave us back is that if we did that, it would cost us $8.4 million to furnish you that information. Do you think it would cost $8.4 million to furnish that information?

Ms. MARQUEZ. Congressman, there have been several discussions with your staff and HUD over the months since November. We have been happy to work with your office and the staff of the committee.

We have provided thousands of pages of documentation on time. We have responded to every letter and continue—and I understand we now have a meeting scheduled for this Friday to continue our discussion.

Mr. NEUGEBAUER. We thought—

Ms. MARQUEZ. We put the question to the contractor precisely that your office requested. And it was forwarded this week. It is in the hundreds of thousands of dollars, not millions.

We corrected that. There was a miscommunication. It is now nearly $800,000.

If you like, if you have other questions of the contractor, a contractor that I want to note—a contract that was entered into with the prior Administration, we would be happy to bring it forward.

But regardless of the cost issue, we are happy to continue to work with your staff. And that is why we have a meeting now, several meetings, but one scheduled this Friday to continue.

And if we can reach an agreement, we would like to.

Mr. NEUGEBAUER. Yes, I appreciate that.

I felt like that was very inconsistent. For example, in 2010, for all freedom of information requests that you had, you spent $1.2 million. And then you send me back this letter that says it is going to cost $8.4 million to do it.

Now, maybe you are saying that the contractor is—it is $700,000 and some odd.

This is a credibility problem for government. When the taxpayers say, hey, we have Members of Congress trying to do their job of doing oversight, asking for information that will help us make sure that the checks and balances that the founders put in place here. And yet your agencies over there are worried about furnishing us information.

I felt like it was a stonewalling to throw up such a ridiculous number of $8.4 million.

And so, I hope—and what I heard you just say is that you understand the importance of oversight. You understand the importance of what we are trying to accomplish. And that you are going to cooperate with us and make sure that you furnish this—what we think was very straightforward.

We are not trying to create busy work over there. But we are trying to do what we are charged to do, and that is to make sure that the taxpayers' interests are appropriately represented.

And so, are you all going to cooperate with us?

Ms. MARQUEZ. One of the things that I appreciate about you, Congressman, is that you and I are both straightforward.

And we, in writing, corrected the estimate. It is now under $750,000. We have had several meetings. And I want to, again, note that the estimate comes from a contractor that was bid and approved by the Bush Administration.

We are all bound by it. And they have corrected it. We put precisely the question you asked. They responded. We have provided you with their response.

If you have any other requests, we have made clear, we are happy to forward them. And we have a meeting scheduled this Friday to continue this straightforward discussion.

Mr. NEUGEBAUER. Yes. I appreciate that. And I hope that will be a productive meeting because we think that the information that we requested is very important.

We still think that these numbers are way too high. And I hope that you are taking action to make sure that: one, you furnish the documents; and two, you do it in the most cost-effective way that you can for the benefit of the taxpayers.

Ms. MARQUEZ. Our commitment is to continue to work with you as we have been—and we provided thousands and thousands of pages.

We continue to be completely transparent. And we look forward to the meeting this Friday.

Mr. NEUGEBAUER. I thank you, and I yield back, Mr. Chairman.

Mr. HURT. Thank you, Ms. Marquez.

Thank you, Mr. Neugebauer.

Our next questioner will be Mr. Sherman from California. You are recognized for 5 minutes, sir.

Mr. SHERMAN. The initial part of my time will be the very best part of that time, because I yield 30 seconds to the gentleman from Texas.

Mr. GREEN. Thank you.

One of my colleagues posed a question earlier about the $250 and how this is acquired.

I think it is a fair question. And I would like for someone to address the question.

My assumption is that this is earned income. But if there is some other type of income that I am not aware of that we recognize as lawful income, I would like to hear someone talk about it, please.

Ms. HENRIQUEZ. I will be responsive to your question.

The $250 or whatever that dollar amount is for a family on a monthly basis is tied to either wages or it is lawful income through Social Security, TANF, or a variety of incomes, depending on the household, its size, the age of the head of household, and so on.

If I might just take a moment, as we have talked about minimum rents, I want to make sure that it is very clear that—

Mr. GREEN. I have to interrupt because I am on borrowed time.

Ms. HENRIQUEZ. All right—

Mr. GREEN. This is interest—

Ms. HENRIQUEZ. —thank you.

Mr. GREEN. I want to thank you for allowing me to apologize to you. I mispronounced your name earlier.

Thank you, Brad.

Mr. SHERMAN. Thank you.

I have heard concerns about the FHA's policy concerning strategic defaults. Under the current FHA policy, homeowners who strategically default on their mortgage will not be able to obtain another FHA loan for at least 3 years.

Alternatively, Fannie Mae's policy is to prevent the borrower from strategically—who has strategically defaulted from obtaining a Fannie Mae-backed mortgage for 7 years.

I wonder if you can explain, Mrs. Galante, the FHA policy of 3 years rather than 7 years?

And also, clarify whether—if you strategically default on an FHA loan, can you get a Fannie Mae loan the next day and vice versa?

Mrs. GALANTE. Thank you. Let me just be clear about this question of a strategic default.

I think there is a difference between FHA and Fannie and Freddie on—if you have gone through a foreclosure, any kind of foreclosure, in our world, in the FHA world, there are very strict servicing guidelines that if you have gone all the way through foreclosure, you have worked with your lender. You have been offered loss mitigation activities. So, we do not believe that these are people who are "strategic defaulters." That doesn't mean they weren't foreclosed on.

Mr. SHERMAN. So, do you treat all defaulters as strategic and otherwise the same, because there is no real way to tell who is strategic and who is just unable to pay?

Mrs. GALANTE. Lenders are required as part of the loss mitigation activities to understand the circumstances of the individual borrower. So, there is some information there.

Frankly, we are not collecting, of those who have defaulted, all the exact circumstances that got them into the foreclosure.

I would say, I think, as we move forward with housing recovery where we want to look at people's ability to get back in to the market, looking at some level of consistency between the various lender institutions on how they might actually look at foreclosure—

Mr. SHERMAN. So, you are 3 years. They are 7 years. You are looking towards some consistency in the future. But you are not there yet.

Mrs. GALANTE. I would just say, I don't think we have actually started to have that conversation. And where the right place to be, I think, is still open to conversation—

Mr. SHERMAN. And does the FHA try to distinguish between strategic defaults and other defaults, or just to have a 3-year rule with regard to defaults?

Mrs. GALANTE. The 3-year rule—actually, there is 3 years and then there is a test of looking at whether there were particular extenuating circumstances.

That will get looked at. Credit scores will definitely be affected when people have been foreclosed on, and so those things—

Mr. SHERMAN. Okay—

Mrs. GALANTE. —will get looked at—

Mr. SHERMAN. Let me just—

Mrs. GALANTE. —underwriting—

Mr. SHERMAN. —squeeze in one thing. I know the question has already been asked. But I do want to associate myself with the concerns about condominiums.

Certainly, the FHA rule that if you have 15 percent of the units delinquent with the association dues, that is a problem, and should be modified with regard to bank-owned units since banks typically pay, not monthly, although they should, but rather at the time of the sale.

And also the—it seems to be that the condominiums are actually performing better than the single family homes. And I hope that FHA would accommodate those who want to buy condominiums.

I yield back.

Mr. HURT. Thank you, Mr. Sherman.

We now recognize the gentlelady from California, Ms. Waters, for 5 minutes for questions.

Ms. WATERS. Thank you very much, Mr. Chairman.

I am pleased that we have this panel before us today.

I want to address my first question to Mrs. Carol Galante. I am very concerned about the Administration's proposal to short fund the contracts of project-based Section 8 owners. Under this proposal, owners would be funded from the start of their contract through the end of the fiscal year, and not through the end of their contract as it is counter to practice.

The Bush Administration tried a similar policy that led to late payment to owners, increased costs, errors in forecasting expenditures, and at the end of the day still required $2 billion to pay the back ends of the contracts.

Also, I am aware that under your proposal in 2014, the program will still need the additional $1.1 billion. So, this policy doesn't really save any money.

Given these demonstrated problems with this policy, I would like to know why the Administration is proposing it.

Can you state—go ahead?

Mrs. GALANTE. Thank you for the question, Congresswoman.

Let me say this was one of the more difficult and painful decisions that HUD needed to make in looking at how to meet our budgetary projections.

But we did do this in a way that we are not going to have a situation where owners are not getting paid during their fiscal year of their contract, or where tenants are at risk in any way.

What this policy does is, if you think about it more as a just in time funding, the funding will be for the term—for some contracts—of the fiscal year. And then a calm at the beginning of the next fiscal year when they are due funding, that will need to be appropriated from the, in this case, 2014 budget cycle.

Ms. WATERS. So, are you telling me there will be no late payments to owners?

Mrs. GALANTE. That is correct during the fiscal year. And I will say that the Department in the past couple of years has been doing a much, much better job, has better forecasting tools. And we will be fully funding during the term of the fiscal year.

And one other thing I would say, when this happened during the Bush Administration, one of the things that happened was it was—these contracts—this is not transparent to people.

All of a sudden, it happened over a period of a number of years. And all of a sudden, there wasn't enough money to fund the contract.

We are planning for the strategy that we are implementing here.

Ms. WATERS. Would you tell me exactly why you have to do this? Why do you have to do it?

Mrs. GALANTE. Again, it is a difficult choice in terms of the overall HUD budget, and how we are going to live within the overall constraints of the Budget Control Act.

And this was a choice, as one way to do it, that again did not disrupt payments during the fiscal year for owners or for tenants' assistance. But again, this was not an easy thing to do.

Ms. WATERS. So, you don't save any money doing this?

Mrs. GALANTE. We do during the period of the fiscal year because the previous practice was if you had a contract that crossed fiscal years, that is really what we are talking about, we would fund the full 12 months.

So, out of 2013 appropriated dollars, we would fund 12 months' worth that would go into the next year for that owner.

What we are saying now is we are funding essentially by fiscal year and just enough into the next fiscal year to keep the payments on track until the next appropriation.

Ms. WATERS. So in 2014, you will be asking for the whole amount?

Mrs. GALANTE. Not necessarily. Again, it depends on how the contracts roll, and how many months of funding those contracts are going to need during 2014.

So, again, at some point in time, you will end up with most of the contracts that have 12 months within the same fiscal year. And at that point in time, you will need enough appropriated dollars to fund all those contracts.

And that is not likely in 2014. But it will happen at some point in time.

Ms. WATERS. Thank you very much. We still think it is a problem. And we are going to have to take a close look at that.

Thank you.

Mrs. GALANTE. Thank you.

Mr. HURT. Thank you, Ms. Waters.

The next member to have questions will be Mr. Watt from North Carolina, for 5 minutes.

Thank you.

Mr. WATT. Thank you, and please accept my apologies for not being here. I was unfortunately delayed in a markup of bills in the Judiciary Committee and couldn't get here. It was certainly not a reflection of the importance of what we are talking about. But markups do take precedence over hearings most times.

So, Ms. Henriquez, some of my housing authorities have expressed serious concerns about the proposal to draw down "excess" reserves. I have used the word "excess" in quotations. They don't think they are excess. They got built up in a lot of cases by housing authorities being told by prior Administrations that they were going to be required to be more entrepreneurial.

And so, they complied with the mantra that they should become more entrepreneurial, built up some reserves, and now we are back taking those reserves from them when they could have used them in prior years to do something else, as opposed to building up the reserves, such as maintain their properties or serve more people with Section 8 vouchers.

My line of questioning actually has to do with that. The budget is level-funded for Section 8 vouchers. Market rents are rising at the rate of about 2 percent per year. And new families are coming on to the Section 8 voucher program, which means that one could reasonably expect that Section 8 vouchers are going to need more money.

And you propose to cover that by requiring agencies to cover part of these costs by spending down these "excess reserves." You required housing authorities to draw down $650 million in excess reserves in 2012. So in light of that, my question is, what is HUD's estimate of the amount of excess reserves that will be available in

2013? And how much does the HUD request assume that agencies will have to draw down to cover these costs in 2013?

Do you think that is a reasonable source to be getting this money from if we are going to still expect housing authorities to be entrepreneurial or have we given up on that approach?

Ms. HENRIQUEZ. Thank you for the question. We have not given up on the entrepreneurial approach for housing authorities. But I do want to be clear—

Mr. WATT. Does that require some reserves—

Ms. HENRIQUEZ. In—

Mr. WATT. —to be entrepreneurial?

Ms. HENRIQUEZ. It could. But let me explain—

Mr. WATT. Okay—

Ms. HENRIQUEZ. —further.

Mr. WATT. I will leave you alone. Go ahead. I asked my question, go ahead.

Ms. HENRIQUEZ. Okay. In 2012, the reserve or the allocation that we required housing authorities to draw from was from their operating reserve, on their public housing operating account. And that was $750 million.

Those reserves have built up to in excess of $3.8 billion. We established a floor, a minimum under which we thought housing authorities being well-operated should not go below. And we worked with the system and looked at the numbers from their own audited financials to determine that level.

In the 2012 budget as well, there is an offset on the net restricted assets, which comes from the Section 8 voucher program. That amount is set at $650 million. It allows for housing authorities to retain about a 7 percent reserve, 7 percent of their program.

And I would say that taking this offset in that restricted assets from the voucher program is something that has occurred in past years primarily in 2007 or 2008 and 2009 as well.

The Section 8 reserves can only be used for Section 8 voucher purposes and not anything else.

We have created a tool for housing authorities to be able to use their net restricted assets to try to increase the number of vouchers that they put under—so that they are not building up "excess net restricted asset reserves," so that we can house more people.

And through the mechanism, using the tool, working with housing authorities in the last fiscal last year, we put more than 40,000 or 50,000 more households in voucher-assisted units across the United States.

Mr. WATT. Mr. Chairman—

Mr. HURT. Without objection, the gentleman will be recognized for an additional 2 minutes.

Mr. WATT. I just wanted Mr. Bostic—I don't even know what his testimony was about—but he seemed to have a dog in this fight. And I wanted to at least have him have the opportunity to respond to this. He seemed to be on the other side just judging from his facial expression.

[laughter]

Mr. BOSTIC. People tell me all the time that my facial expressions get me in trouble.

I actually have no dog in this fight.

Mr. WATT. You have no dog in this fight—

Mr. BOSTIC. No.

Mr. WATT. Okay, I just misread your facial expressions. Does anybody else have a dog in the fight, who is contrary to Ms. Henriquez?

Everybody seems content. Just my entrepreneurial housing authorities that say they are now are getting whiplash, because they built up these reserves under prior Administrations, and now the policy seems to have changed about how entrepreneurial you should be.

Ms. HENRIQUEZ. The policies have not changed about being entrepreneurial. What has changed is we are requiring housing authorities to spend the money.

And for housing authorities in your State and across the Nation, when those housing authorities had questions about the adjustment allocation, their operating reserves, we actually asked them and worked with housing authorities individually—

Mr. WATT. So, there is some discretion. If I wanted to—if they have good reasons to have these reserves, we could talk to you about it. That is what you are saying.

Ms. HENRIQUEZ. That is correct, and if they have used them appropriately, absolutely.

Mr. WATT. Okay, I yield back, Mr. Chairman.

Thank you for the additional—

Mr. HURT. The gentleman yields back.

Thank you, Mr. Watt.

And I would like to recognize myself for an additional 2 minutes just to ask a follow-up question for Mr. Bostic about the Moving to Work Program.

It was certainly developed at a time when there was no research metric to be able to judge its effectiveness. We have heard a lot about effectiveness in trying to make programs more effective and how we measure the success of programs during this hearing. I think we all recognize there is something we need to do.

But since 1998, HUD has had the opportunity to develop an evaluation tool, and has not done so. I am wondering if you could speak to that, and tell us what progress you are making in developing a research metric.

Mr. BOSTIC. Thank you for the question.

This is a program that is of tremendous interest to all of us because it offers—Secretary Henriquez was talking about innovation. It is a place where a lot of innovation happens. And we need to know sort of which of those innovations actually pays off.

I would say a couple of things. First, in our budget request, through the transformation initiative, we make a request to do an evaluation of the Moving to Work demonstration Program. So, I think we want to do that.

Working with the Office of Public and Indian Housing, we have also instituted a policy change such that new MTW agencies commit to work with a local researcher to do an evaluation of an ongoing basis about the things that they are doing.

So, while the older program participants is something of water over the dam, if you will, what we are trying to do is make a marker right now to say as we move forward, we are going to do those evaluations, so that we can learn all that we need to about how MTW works and what things work best.

Mr. HURT. Thank you, Mr. Bostic.

At this time, I ask unanimous consent to insert into the record a letter from the Housing Coalition on Project-Based Section 8 Short Funding dated February 27, 2012.

Mr. HURT. Without objection, that letter will be made a part of the record.

Obviously, this hearing is very important. We appreciate your participation here today. And thank you for working with us as we try to tackle the big challenges that we face in this next budget cycle.

Without objection, the panel is dismissed and the hearing is adjourned.

The Chair notes that some Members may have additional questions for the panel, 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 these witnesses and to place their responses in the record.

[Whereupon, at 12:08 p.m., the hearing was adjourned.]

A P P E N D I X

February 28, 2012

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

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

Hearing before the Financial Services Subcommittee on Insurance, Housing, and Community Opportunity, U.S. House of Representatives

Mrs. Carol Galante, Acting Federal Housing Administration Commissioner and Assistant Secretary for Housing
The Honorable Sandra B. Henriquez, Assistant Secretary, Office of Public and Indian Housing
The Honorable Mercedes M. Mãrquez, Assistant Secretary, Community Planning and Development
The Honorable John Trasviña, Assistant Secretary for Fair Housing and Equal Opportunity
The Honorable Raphael Bostic, Assistant Secretary for Policy Development and Research

on

"Oversight of the Department of Housing and Urban Development"

Tuesday, February 28, 2012

Chairman Biggert, Ranking Member Gutierrez, and Members of the Committee, thank you for the opportunity to testify today regarding the fiscal year 2013 Budget for the Department of Housing and Urban Development, *Housing and Communities Built to Last.*

We 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 3.2 million new private sector jobs have been created in the last 22 months, and national unemployment has fallen to a near 3-year low. But we know there's still more work to be done to ensure that America can create an economy built to last – with good jobs that pay well and security for the middle class.

HUD's Fiscal Year 2013 Budget tackles these challenges head on: by helping responsible families at risk of losing their homes; by providing quality affordable rental housing to some of our nation's most vulnerable families; 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 our country needs. Indeed, this Budget will support hundreds of thousands of jobs both directly and indirectly, serving as a powerful engine for job creation in the places that need them most.

Our Budget provides $44.8 billion for HUD programs, an increase of $1.4 billion, or 3.2 percent, above fiscal year 2012. This program funding level (i.e., gross budget authority) is offset by $9.4 billion in projected FHA and Ginnie Mae receipts, leaving net budget authority of $35.4 billion, or 7.3 percent below the fiscal year 2012 enacted level of $38.2 billion. The Budget reflects the reality that we cannot create an economy built to last without taking responsibility for our deficit. The caps set by the Budget Control Act of 2011 promise over $907 billion in total discretionary cuts over the next 10 years, and every department shares a responsibility to make tough cuts so there's room for investments to speed economic growth. To maintain our commitment to fiscal discipline, this Budget invests in improving the infrastructure and technological systems critical to reforming the government to be leaner, more transparent, and ready for the 21st century. Moreover, by providing a menu of key reforms – including to some of our largest rental assistance programs – this Budget simplifies and aligns policies to be more efficient and effective, while saving the taxpayer hundreds of millions of dollars. To be clear, not all of the reforms we're proposing are easy. Indeed, this Budget makes tough choices in order to contribute to deficit reduction in a substantial way.

Responding to the Crisis

Much has happened in the three 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, house prices had declined for 30 straight months, and consumer confidence had fallen to a 40-year low.

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 take aggressive steps. 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 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. Since April of 2009, more than 5.6 million borrowers have received mortgage modifications with affordable monthly payments, nearly 14 million families have been able to refinance their homes, and foreclosures are down by nearly 50 percent.

Creating an Economy Built to Last

Now, having prevented our economy from falling into a second Great Depression, the Administration is focused on ensuring that we create an economy built to last, which makes strategic investments in our communities but also takes responsibility for our deficit. For HUD, that meant using four 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;
3. Continuing progress on signature initiatives to provide communities with the tools they need to speed economic growth; and
4. Reducing regulatory burdens and increasing efficiency – including streamlining, simplifying, and reforming current programs.

As such, the Department's budget for fiscal year 2013 follows the roadmap the President has laid out for jumpstarting our economy through educating, innovating, and building – by targeting our investments to the families and geographies that need them the most, and putting American back to work. Specifically, this budget helps:

Give Hard-Working, Responsible Americans a Fair Shot. Not only is there more work to do to ensure that the economic security of middle class Americans does not continue to erode, we have a responsibility to directly address the challenges facing the most vulnerable Americans. This Budget does so by serving over 5.4 million families—the majority of whom are extremely low-income—in our rental assistance programs; and by supporting the Choice Neighborhoods initiative ($150 million), which provides communities with the innovative tools they need to revitalize neighborhoods of concentrated poverty – efforts that helped communities leverage over $1.6 billion of private funding last year alone.

Ensure Every American Plays by the Same Rules. Put simply, we cannot settle for a country where a shrinking number of people do really well, while more Americans barely get by. There are still millions of Americans who have worked hard, acted responsibly, and made their mortgage payments on time – who, because their homes are worth less than they owe on their mortgage, can't take advantage of today's historically low interest rates and are facing real economic insecurity. In addition to steps taken by the Administration to combat predatory lending practices (discussed in depth below), this budget provides critical funding for the Housing Counseling program ($55 million), which will directly help over 185,000 of low-to moderate-income families in improving access to quality affordable housing, expanding homeownership opportunities, and preserving homeownership through foreclosure mitigation; as well as providing training to over 4,800 counselors nationwide.

This Budget also recognizes that we can no longer tolerate a federally-supported rental housing system that is "separate and unequal" – one which expects public housing authorities (PHAs) to house over 3 million families, subjecting them to overly burdensome regulation while denying them access to private capital available to virtually every other form of rental housing. To bring our rental housing system into the 21st century and begin addressing the $26 billion in public housing capital needs, this Budget includes proposals that would increase PHA flexibility to fund critical supportive services for assisted families while also moving them toward mainstream real estate financing and management practices through the consolidation of outmoded funding streams. At the same time, by implementing the second year of our Rental Assistance Demonstration, the Budget will use existing resources to ensure that up to 60,000 units funded through our public housing and the so-called "orphan programs" can leverage debt to access private capital and preserve affordable housing.

Create New Jobs in America to Discourage Outsourcing. In addition to the hundreds of thousands of jobs that this budget creates both directly and indirectly, it makes an essential contribution to the Administration's broader effort to discourage outsourcing and encourage 'insourcing.' Specifically, 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, and transportation networks that move goods and people efficiently – which is why this budget restores funding for Sustainable Housing and Communities ($100 million), which embodies the President's commitment to being a new kind of federal partner to regions, states, and localities as they tackle planning and economic development challenges for the 21st century.

Of course, smart planning requires sustained follow-through. That is why HUD is committed to ensuring that its core community and housing development work contributes to more and better transportation choices; promotes equitable, affordable housing; and aligns federal policies and funding to remove barriers to local collaboration. Accordingly, HUD will continue to make critical investments programs such as the Community Development Block Grant ($2.95 billion in formula grants) and Native American Housing Block Grant ($650 million). In particular, CDBG is an important catalyst for economic growth – helping leaders around the country bring retail businesses to their communities, forge innovative partnerships and rebuild their economies.

Reform Government So that it's Leaner, Smarter, More Transparent, and Ready for the 21st Century. It is clear that an economy built to last requires a federal government that is efficient, streamlined, and transparent. As such, the Budget proposes reforms to HUD rental assistance programs that would save over $500 million in fiscal year 2013 without reducing the number of families served – by streamlining programs and reforming policies. Moreover, this Budget once again calls for the flexible use of resources (estimated $120 million)[1] through the Transformation Initiative, which the Department needs to invest in technical assistance to build local capacity to safeguard and effectively invest taxpayer dollars; conduct innovative research, evaluations of program initiatives and demonstration programs so we can fund what works and stop funding what doesn't; and upgrade the IT infrastructure that tracks and monitors our programs.

Moving the Needle, Making Substantial Progress

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 serve millions of families in thousands of communities nationwide; to help create an economy built on American manufacturing, American energy, skills for American workers, and a renewal of American values.

Consistent with the previous two years, HUD's fiscal year 2013 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 create an economy built to last. Indeed, every month, Secretary Donovan holds *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.

Holding Ourselves Accountable:
Moving the Needle on Veterans Homelessness

In a year when we have troops returning from two wars, we cannot afford to waste any time in the fight to end veterans homelessness. That is why the partnership between HUD and the Department of Veterans Affairs (VA) is more important than ever. Over the last two years alone, HUD and the VA have collaborated through the HUD-VASH program to end homelessness for more than 40,000 veterans, far surpassing HUD's High Priority Performance Goal of 31,000. Overall, HUD and the VA have jointly committed to eliminating veterans homelessness by 2015, a goal which can only be achieved through effective collaboration, along with a joint focus on data-driven accountability as demonstrated in processes like HUDStat. VA Deputy Secretary Scott Gould and key VA program staff have become regular participants in HUDStat meetings, where together we analyze performance data to understand trends, identify best practices, and prioritize the actions needed to accelerate progress. Through this collaboration, which extends to staff throughout the country, we are proud of the work that the Department has done to keep us on track to end veteran's homelessness by 2015. However, as President Obama has said, until we reach a day when not a single veteran sleeps in our nation's streets, our work remains unfinished.

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

This Administration entered office confronting the worst economic crisis since the Great Depression— as mortgages were sold to people who couldn't afford or understand them, while banks packaged them into complex securities that they made huge bets on – and bonuses with – other people's money. And while the largest factors contributing to this crisis were market driven, the American people have turned to Congress and the administration for leadership and action in righting our nation's housing market. HUD remains

[1] The total TI transfer authority in FY2013 is approximately $215 million, however HUD anticipates transferring approximately $120 million.

firmly committed to working together with communities and individuals to cope with these unprecedented challenges.

Responding to the Market Disruption

The Federal Housing Administration (FHA) and Government National Mortgage Association (GNMA) continue to have a significant impact on the nation's economic recovery. The activities of the Federal Government are critical to both supporting the housing market in the short term and providing access to homeownership opportunities over the long term, while minimizing the risk to taxpayers. Over the past two years, HUD has worked with the Department of the Treasury and other administration partners to construct a housing finance system that relies on an actuarially sound pricing structure, effective lending oversight, and adequate organizational capacity to ensure consistent access to, and liquidity and stability in, the capital markets.

In Fiscal year 2013, HUD is requesting $400 billion in loan guarantee authority for the Mutual Mortgage Insurance Fund, which will provide an estimated 0.8 million single-family mortgages (a projected $149 billion in loan volume) and $25 billion in loan guarantee authority for the General and Special Risk Insurance Fund, which will provide an estimated 156,000 units in multifamily housing properties and an estimated 80,600 beds in healthcare facilities. The need for this investment is clear as FHA has played a critical role in stabilizing the nation's mortgage market. At a time when liquidity and access were needed most in the housing market to facilitate the recovery of the broader economy, FHA stepped in to ensure that mortgage capital continued to flow. However, FHA's expanded role is and should be temporary. FHA's loan volume has declined 34 percent from its peak in 2009, and its market share is decreasing for the first time since 2006, thereby laying the ground work for private capital to return to the market. FHA is particularly important to borrowers that the conventional market does not adequately serve , including qualified borrowers who would otherwise be shut out of the mortgage market. Fully 60 percent of all African American and Hispanic homebuyers using mortgages rely upon FHA financing and over 30 percent of all FHA-insured homebuyers are minorities. Over half of all African Americans who purchased a home last year and forty-five percent of Hispanics did so with FHA financing.

Redoubling Efforts to Keep Homeowners in their Homes

While there is work still to be done, HUD is proud of the progress this Administration has made in tackling ongoing foreclosure challenges. Between April 2009 and December 2011, more than 5.6 million mortgage modifications were started – including more than 1.7 million HAMP trial modification starts and nearly 1.2 million FHA loss mitigation and early delinquency interventions. In addition, to date, more than 930,000 HAMP trial modifications have resulted in permanent modifications – saving these households an estimated $10.5 billion in monthly mortgage payments.

As part of the Administration's commitment to help responsible homeowners stay in their homes, we have actively sought to use our current programs and authorities to make homeownership sustainable for millions of American families. Examples of our efforts include:

- *Streamline Refinance* – An option that allows borrowers with FHA-insured loans who are current on their mortgage to refinance into a new FHA-insured loan at today's low interest rates without requiring additional underwriting, permitting these borrowers to reduce their mortgage payments. This program benefits current FHA borrowers – particularly those whose loan value may exceed the current value of their home – and by lowering a borrower's payment, also reduces risk to FHA. And, because we see potential for more widespread use of this product, FHA will make changes to the way in which streamline refinance loans are displayed in the Neighborhood Watch Early Warning System (Neighborhood Watch) to reduce lender concern about the potential impact associated with taking responsibility for loans they have not underwritten, making them more willing to offer these loans to borrowers who are current on mortgages already insured by FHA.

- *National First Look Program* – A partnership between HUD, the National Community Stabilization Trust and large financial institutions that offers Neighborhood Stabilization Program grantees an exclusive 12-14 day window to evaluate and bid on foreclosed properties.
- *Short Refinance Option* – In 2010, FHA made available an option that offers underwater non-FHA borrowers, who are current on their existing mortgage and whose lenders agree to write off at least 10 percent of the unpaid principal balance of the first mortgage, the opportunity to refinance into a new FHA-insured mortgage.

Finally, as another critical component to the recovery of the housing market, the President has also put forward a homeowners Bill of Rights – a single, straightforward set of commonsense rules that families can count on when they're shopping for a mortgage, including the right to a new, simple, clear form for new buyers that gives people confidence when they're making the most important financial decision of their lives. And those rights shouldn't end when homeowners get the keys to their new home. When Americans lose their job or have a medical emergency, they should know that when they call their lender, that call will be answered and that their home won't be sold in foreclosure at the same time they are filling out paperwork to get help.

Funding What Works:
Housing Counseling Assistance

In Fiscal year 2013, HUD is requesting $55 million in Housing Counseling Assistance, to improve access to quality affordable housing, expand homeownership opportunities, and preserve homeownership, all of which are especially critical in today's economic climate. With this funding, HUD expects to serve nearly 185,000 low- to moderate-income families, as well as provide training to 4,800 counselors nationwide. HUD-approved counselors help clients learn about purchasing or refinancing a home; rental housing options; reverse mortgages for seniors; foreclosure prevention; loss mitigation; preventing evictions and homelessness; and moving from homelessness to a more stable housing situation. In 2011, HUD-Approved Housing Counseling agencies, with grant funds from HUD and other funding sources, assisted over 1.9 million families, including more than 1 million potential and current homeowners with mortgage-related issues.

Strengthening FHA and Paving the Way for Private Capital to Return

The books of business in the few years before 2009 have largely driven the high number of claims to the Mutual Mortgage Insurance Fund (MMI Fund). This was driven by overall economic and unemployment trends as well as by the combined effects of poor underwriting, unscrupulous and non-compliant practices on the part of lenders, and a seller-funded downpayment assistance program that allowed many borrowers to obtain mortgages without a meaningful down payment. As a result, the books of business FHA insured prior to the start of this Administration have severely impacted the health of FHA's MMI Fund. But thanks to our efforts, we can say confidently that FHA is moving in another direction, and that the long term outlook for FHA and the MMI Fund are now much better than they were in 2009.

The change in trajectory in the performance of FHA-insured loans is no accident. Immediately upon taking office, this Administration acted quickly and aggressively to protect FHA's MMI Fund and to ensure its long term viability. We have taken more steps since January 2009 to eliminate unnecessary credit risk and assure strong premium revenue flows in the future than any Administration in FHA history. Indeed, the gains FHA has experiences since 2009 are the result of a three-part strategy: systematic tightening of risk controls, increased premiums to stabilize near-term finances and expanded usage of loss mitigation workout assistance to avoid unnecessary claims.

And, HUD continues to take steps to further strengthen the Fund. In the 2013 Budget we announced a 10 bps annual premium increase on all FHA insured loans to comply with the requirement passed by Congress late last year, as well as an additional 25 bps annual premium increase on "jumbo" loans making the total increase for these larger loans 35bps. And just this week, we announced a series of premium changes that will further increase receipts to FHA by over $1 billion in fiscal years 2012 and 2013, beyond the receipts already included in the President's budget submission. In addition, HUD has also taken significant additional steps to increase accountability for FHA lenders. Via a final rule published a few weeks ago, we clarified the bases upon which FHA will require indemnification from lenders participating in our Lender Insurance program, making clear the rules of the road for lenders and giving FHA a solid basis upon which to require indemnification by lenders for violations of FHA guidelines. And we continue to seek expanded authority via legislation that will further enable us to protect the MMI Fund from unnecessary and inappropriate losses associated with lenders who violate our requirements.

The next in a series of steps we have pursued to hold lenders accountable for their actions are the recently announced settlements with some of America's largest lenders. Through these settlements, FHA will receive over $900 million compensation for losses associated with loans originated outside of FHA requirements, or for which FHA's servicing requirements were violated.

Despite the unprecedented efforts of this Administration to alter the trajectory of FHA, considerable risks remain. The FHA MMI Fund has two components: the Financing Account, which holds enough money to accommodate all expected losses on FHA's insured MMI portfolio as of the end of the current fiscal year; and the Capital Reserve Account, which is required to hold an additional amount equal to 2 percent of the insurance in force. Since 2009, the Fund's capital reserve ratio has been below that 2 percent level.

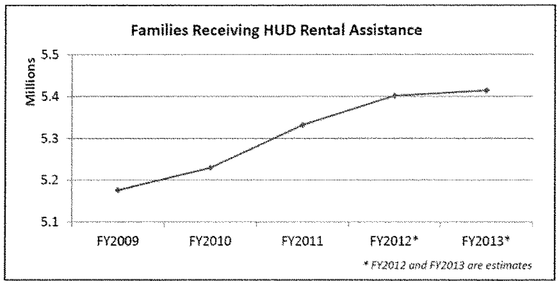
The President's Budget always includes estimates regarding the status of the Capital Reserve at the end of the current fiscal year. This prediction is based on estimates and projections of future economic conditions, including house prices and other economic factors which may or may not come to pass. In addition, the 2013 Budget estimate for the FHA Capital Reserve account does not include added revenue from the additional premium increases announced this week or the proceeds from FHA-approved lenders under the terms of the mortgage settlements. With these additional revenues accounted for, the Capital Reserve is estimated to have sufficient balances to cover all future projected losses without triggering a mandatory appropriation under the Federal Credit Reform Act. Moreover, the Budget estimates that FHA will add an additional $8 billion to the MMI Capital Reserve Account in 2013, and return to the congressionally mandated capital reserve ratio of 2 percent by 2015.

The 2013 Budget also includes premium increases for FHA's General Insurance and Special Risk Insurance programs that serve market rate multifamily properties and healthcare facilities. These changes are intended to ensure that FHA products are priced appropriately to compensate for FHA's risk and encourage the return of private capital to our mortgage markets. The proposed increases include: 20 basis points for all new construction or substantial rehabilitation loans including but not limited to Section 220, 221(d), Section 231, Section 242, and Section 232; 15 basis points for permanent loans in Section 223(f); and 5 basis points for Section 223(a)(7). Premiums for affordable housing projects (such as those with HUD rental subsidies and low income housing tax credits, as well as those insured under FHA risk-sharing programs) will not be increased.

With the proposed premium increases, FHA Multifamily and Healthcare loans will be priced more appropriately to crowd back in private capital, while at the same time continuing to ensure sufficient levels of available capital in these sectors. The increase in premiums also reflect new realities – the Multifamily book of business is five times greater than it was just three years ago, and the risk profile has changed dramatically. FHA's portfolio is now more than 50 percent market rate, which adds a new component of risk, and a need to take steps to ensure the future viability of the portfolio. With interest rates at a record low the existing portfolio loans could remain in FHA's portfolio longer than the average time frames and will need to be managed prudently. FHA will publish the proposed increased in the Federal Register in the next 30-60 days and welcomes feedback during the comment period.

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

In an era when more than one-third of all American families rent their homes and nearly 7million unassisted families with very low incomes spend more than 50 percent of their income on rent, it remains more important than ever to provide a sufficient supply of affordable rental homes for low-income families – particularly since, in many communities affordable rental housing does not exist without public support. HUD's fiscal year 2013 Budget maintains HUD's core commitments to providing rental assistance to some our country's most vulnerable households as well as distributing housing, infrastructure, and economic development funding to states and communities to address their unique needs. Overall, 83 percent of HUD's total FY2013 budget authority requested will provide rental assistance to over 5.4 million residents of HUD-subsidized housing, including public housing and HUD grants to homeless assistance programs. And, we are proud to say that, despite an era of challenging budgets, we have increased the number of families served through our rental assistance programs every year.



Detailed data shows how vulnerable these families are to the economic downturn. In HUD's core rental assistance programs, including TBRA, Public Housing and PBRA: 72% of families are extremely low-income (below 30 percent of area median income) and an additional 20 percent are very low-income (below 50 percent of area median income). The devastating effect of the tough economic environment on the housing circumstances of poor Americans was underscored last year, 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 over a two year period in the quarter-century history of the survey, and caps an increase of 42 percent since 2001. The need for HUD investments in this area is clear.

Preserving Affordable Housing Opportunities in HUD's Largest Programs

This budget provides $19.07 billion for HUD's Section 8 Tenant-Based Rental Assistance (TBRA) program, which is the nation's largest and preeminent rental assistance program for low-income families. For over 35 years it has served as a cost-effective means for delivering safe and affordable housing in the private market. This 2013 funding level is expected to assist approximately 2.2 million families by renewing existing vouchers and issuing new incremental vouchers to homeless veterans.

The Budget also provides a total of $6.6 billion to operate public housing and modernize its aging physical assets through the Public Housing Operating ($4.5 billion) and Capital ($2.07 billion) funds, a critical investment that will help 1.1 million extremely low- to low-income households obtain or retain housing. Similarly, through a $8.7 billion request in funding for the Project Based Rental Assistance (PBRA) program, the Department will provide rental assistance funding to privately owned multifamily rental housing projects to serve over 1.2 million families nationwide.

Tough Choices:
Project-Based Rental Assistance

In fiscal year 2013, HUD's Project-Based Rental Assistance request of $8.7 billion represents a $640 million decrease from the FY2012 enacted level. This reduction, generated by providing less than 12 months of funding upfront on some PBRA contracts that straddle fiscal years, will not reduce or delay payments to landlords or impact the number of families served by the program. Nonetheless, it is a difficult choice, and not one that the Administration would choose to implement in a less austere fiscal environment.

Reducing Administrative Burdens and Increasing Efficiency

This Budget recognizes the need to simplify, align, and reform programs to reduce administration burdens and increase efficiency across programs by:

- *Streamlining the Public Housing Operating and Capital Funds.* To both simplify the program and reduce the administrative burden on State and local public housing authorities, the Budget proposes to combine the separate Operating and Capital funds into a single Public Housing subsidy stream. As a first step toward consolidation, the Budget provides all PHAs with full flexibility to use their operating and capital funds for any eligible capital or operating expense.
- *Providing Flexibility for PHAs to Improve Supportive Services for Assisted Households.* The Budget proposes streamlining and flexibility measures to help PHAs improve supportive services for assisted families. The Family Self-Sufficiency (FSS) program will be consolidated and aligned to enable PHAs to more uniformly serve both TBRA and Public Housing residents. This program, which the Budget also expands to residents of PBRA housing, aims to connect residents to resources and services to find and retain jobs that lead to economic independence and self-sufficiency. In addition, the Budget authorizes PHAs to use a portion of their Public Housing and Housing Voucher funding to augment case management and supportive services provided through FSS or provide other supportive services to increase opportunities for residents.

Tough Choices:
Cost Savings in Rental Assistance Programs

The budget includes a menu of reforms to HUD rental assistance programs that save over $500 million in 2013 without reducing the number of families served.

- In the Project-Based Rental Assistance program, savings are achieved by improving oversight of market rent studies used to set subsidy payment levels, capping annual subsidy increases for certain properties, and using excess reserves to offset HUD payments to landlords.
- The Budget also aligns policy across rental assistance programs and reduces costs by increasing the minimum rent to $75 per month for all HUD-assisted households, which is comparable to the minimum rent enacted in 1998, adjusted for inflation. Recognizing the potential burden that this higher minimum rent may impose, the Budget maintains the current exemption for families facing financial hardship.
- Finally, this Budget request reduces costs by simplifying administration of the medical expense deduction, better targeting rental assistance to the working poor in rural areas, and setting Public Housing flat rents closer to market levels.

Rebuilding our Nation's Affordable Housing Stock

Over the last 75 years, the Federal Government has invested billions of dollars in the development and maintenance of public and multifamily housing, which serve as crucial resources for some of our country's most vulnerable families. Despite this sizable Federal investment and the great demand for deeply affordable rental housing, we continue to see a decline in the number of available affordable housing units. Over the last decade, the public housing stock has shrunk at a rate of 10,000 units per year, largely due to a growing backlog of unmet capital needs, estimated at $26 billion. To address these challenges, HUD's 2012 Appropriations Act authorized the Rental Assistance Demonstration (RAD) to test new preservation tools for its assisted housing stock allowing for Public Housing and Moderate Rehabilitation (Mod Rehab) properties to convert to long-term Section 8 rental assistance contracts (capped at 60,000 units of converted assistance); and Rent Supplement (Rent Supp), Rental Assistance Payment (RAP), and Mod Rehab properties, upon contract expiration or termination, to convert tenant protection vouchers to project-based vouchers. Unlike their current forms of assistance, these contracts offer a rental subsidy platform that allows PHAs and owners to leverage current Federal appropriations with other private and public capital to finance much needed rehabilitation and preserve the assets as affordable housing.

RAD is a limited demonstration, which will be evaluated to assess the success of these approaches in preserving affordable housing. Since HUD will use funding appropriated for existing programs for implementation and anticipates strong interest in RAD, the 2013 Budget includes a request to exempt Mod Rehab from the 60,000 unit cap on projects that could convert assistance, at no cost, to long-term Section 8 rental assistance contracts. If enacted, the 60,000 unit cap would apply to public housing conversions alone, while the number of Mod Rehab conversions would not be constrained.

Funding What Works:
Taking 'Jobs Plus' to Scale

The budget provides that up to $50 million of Public Housing capital funds may be targeted to Jobs-Plus competitive grants to fund scaled-up implementation of the Jobs-Plus model – a successful, evidence-based strategy to increase the employment opportunities and earnings of public housing residents through a three-tiered program of employment services, rent-based work incentives, and community support for work. This investment will increase employment opportunities for over 30,000 Public Housing residents, by helping them secure and retain employment, keep more of the income they earn, and receive the full benefit of work incentives such as the Earned Income Tax Credit (EITC). A randomized experiment evaluation of the Jobs-Plus model in three demographically diverse sites found that, on average, participants had an additional $1,300 in earnings every year from 2000 to 2006 – and these earning increases were durable beyond the period of the intervention. Jobs-Plus competitive grants will scale up this proven model by targeting resources to high-capacity PHAs and housing developments with enough work-eligible residents to achieve economies of scale. The grants will prioritize broad and diverse local partnerships that cut across sectors, agencies, and funding streams.

Increasing the Production of Affordable Housing Capital Projects

In addition to developing tools to address the growing capital needs of America's Public Housing stock, HUD is committed to expanding the supply of affordable rental homes in safe, mixed-income communities that provide access to jobs, good schools, transportation, and, most importantly, economic self-sufficiency. Accordingly, in fiscal year 2013 HUD is working together with its partners to identify ways to make the Low Income Housing Tax Credit (LIHTC) program a more flexible and nimble tool for the creation and preservation of affordable housing. As the primary tool of the Federal Government for developing and rehabilitating affordable rental housing, the LIHTC program is administered by State agencies with the assistance of guidance from the Treasury Department and the Internal Revenue Service, and attract capital to low-income rental housing by satisfying some of the Federal income tax obligations of investors in certain low-income rental properties.

Since its addition to the tax laws in 1986, the LIHTC program has been used to create 1.8 million in affordable rental-housing units across the country. Annually, the program supports 95,000 jobs and generated $2.7 billion in State, local, and Federal revenues. In fiscal year 2013, as part of a broader effort to align Federal rental programs, HUD, the Departments of Treasury and Agriculture, the Domestic Policy Council (DPC), the Office of Management and Budget (OMB), and the National Economic Council (NEC) will continue partnering to allow greater flexibility to State and local agencies that administer LIHTC programs, as well as to developers and investors, to continue to enable the creation of affordable housing in markets where it is needed the most. Specifically, the revenue provisions of the 2013 Budget enhance two revenue proposals that were included in the 2012 Budget and introduce two new proposals:

- An *Income Averaging* proposal would encourage a greater range of incomes in LIHTC-supported affordable housing by allowing developers to choose an income-limitation requirement that would be satisfied if households in the low-income units have an *average income* no greater than 60 percent of AMI, with no household above 80 percent AMI. An additional provision would allow certain existing tenants to remain in residence without impairing the developer's entitlement to LIHTCs.
- In the context of preserving, recapitalizing, and rehabilitating existing federally assisted affordable housing, a *Basis Boost* proposal would provide a second mechanism for earning "4 percent" LIHTCs and would give an extra, up–to-30-percent increase in qualified basis for certain projects that receive "4 percent" LIHTCs, either because they are at least half financed with tax exempt-bonds or because they employed the new mechanism.
- A proposal concerning *LIHTCs earned by Real Estate Investment Trusts (REITs)* is designed to diversify the pool of investors for LIHTCs and to increase the overall demand for LIHTCs. The proposal would allow a REIT that earns LIHTCs to provide a tax benefit to its investors by paying them tax-exempt dividends in an amount almost triple the amount of the REIT's LIHTCs.
- *A Victims of Domestic Violence* proposal would bar LIHTC buildings from discriminating against victims of actual or threatened domestic violence and would clarify that occupancy restrictions or preferences for such victims are an allowable exception to the general-public-use requirement.

Finally, the recent Worst Case Housing Needs report underscores what has been the case since well before the recent recession, namely, that extremely low-income renters face the most severe housing shortage and cost burden of any Americans. In addition to the Worst Case Housing Needs report, the most recent data available from the American Housing Survey shows that, for renters below 50 percent of area mean income, the shortage of affordable and available units increased from 5.2 to 6 million from 2007 to 2009, with just 39 affordable and available units for every 100 renters in 2009, compared to 44 two years prior. The 2013 Budget once again provides $1 billion in mandatory appropriations for the Housing Trust Fund (HTF) to address this critical shortage of housing where it is most desperately needed. Enacted in 2008, the HTF 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 time has come for Congress to provide this crucial funding.

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

Stable housing provides an ideal platform for delivering a wide variety of health and social services to improve economic, health, and broad-based societal outcomes. For some, housing alone is sufficient to ensure healthy outcomes, while others require housing with supportive services to assist with activities of daily living or long-term self-sufficiency, as well as proximity to crucial services. HUD's fiscal year 2013 Budget acknowledges this reality by making critical investments in housing and supportive services, and partnering with other federal agencies to maximize resources and best practices. Moreover, these investments will save money in the long term, by avoiding overuse of expensive emergency and institutional interventions.

Preventing and Ending Homelessness, Serving our Nation's Most Vulnerable

Nowhere is the relationship between housing and supportive services 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's Budget once again invests in this critical effort, by providing $2.23 billion in Homeless Assistance Grants, including competitive programs that annually serve over 800,000 homeless families and individuals. This includes funding for the Emergency Solutions Grants program, which will continue the work of the Homelessness Prevention and Rapid Re-Housing Program – funded by the Recovery Act – that in the last three years alone has helped prevent or end homelessness for over 1.2 million people nationwide.

Moreover, HUD continues to focus on the unique needs veterans through both its targeted homeless programs and its mainstream housing programs using successful methods and interventions. Currently, an estimated one out of every six men and women in our nation's homeless shelters are veterans, and veterans are 50 percent more likely to fall into homelessness compared to other Americans. HUD is committed to providing affordable housing units to this unique homeless population, and has partnered with the Departments of Health and Human Services (HHS) and Veterans Affairs (VA) to develop targeted approaches to serve the homeless veteran populations. Accordingly, this Budget includes $75 million for the HUD-VASH program, which combines tenant-based voucher assistance with case management and clinical services tailored to veterans and their families. This funding will provide 10,000 new vouchers to help veterans move from our streets into permanent supportive housing, in addition to the nearly 38,000 already allocated HUD-VASH vouchers provided in previous appropriations, which have been critical to a twelve percent reduction in veterans homelessness, and the 10,000 vouchers that will be awarded through the FY2012 appropriation.

Increasing Efficiencies:
Modernizing the Housing Opportunities for Persons with AIDS (HOPWA) Program

The budget proposes to update the HOPWA program to better reflect the current understanding of HIV/AIDS and ensure that funds are directed in a more equitable and effective manner. This modernization includes a new formula that will distribute HOPWA funds based on the current population of HIV-positive individuals, fair market rents, and poverty rates in order to target funds to areas with the most need. It also makes the program more flexible, giving local communities more options to provide timely, and cost-effective interventions. The Budget's $330 million investment in HOPWA, in combination with the proposed modernization, will assist local communities in keeping individuals with HIV/AIDS housed, making it easier for them to stay in therapy, and therefore improving health outcomes for this vulnerablepopulation.

Investing in Leveraging and Serving our Most Vulnerable

This budget provides a total of $625 million for the Housing for the Elderly and Housing for Persons with Disabilities programs, which includes $154 million to support 5,300 additional supportive housing units. Doing more with less, the Budget proposes reforms to the Housing for the Elderly program to target resources to help those most in need, reduce the up-front cost of new awards, and better connect residents with the supportive services they need to age in place and live independently.

Historically, HUD has provided both capital advances and operating subsidies to non-profit sponsors to construct and manage multifamily housing for low-income people with disabilities. In an effort to maximize the creation of new affordable units in a time of funding restraints, in fiscal year 2012 HUD began providing operating assistance to state housing agencies that formed partnerships with state health care agencies for service provision to low-income persons with disabilities. These funds are used to set aside supportive units for this target population in affordable housing complexes whose capital costs are funded through Low-Income Housing Tax Credits, HOME funds, or other sources. Investing Section 811 funds under this authority allows HUD to rely on the expertise of the State housing agencies to administer the award and on the State health care agency to identify the most critical population to be served and guarantee the delivery of appropriate services. In fiscal year 2013, HUD is requesting similar authority for the Section 202 program. Drawing on lessons learned from implementation in the Section 811 program, HUD will take advantage of efficiencies inherent in these same agencies' oversight responsibilities for tax credits, HOME funds or similar housing funding. Assuming requested statutory language is enacted, up to 3,450 units could be made available with support from this project rental assistance.

Goal 4: Build Inclusive Sustainable Communities Free from Discrimination

No longer can the American economy tolerate the marginalization from the labor force of significant numbers of people because of individualized or systemic discrimination, or because they live in isolated neighborhoods of concentrated poverty. An American economy built to last requires an increased supply of affordable rental homes in safe, mixed-income communities that provide access to jobs, good schools, transportation, high-quality services, and, most importantly, economic self-sufficiency. As such, HUD's fiscal year 2013 Budget puts communities in a position to plan for the future and draw fully upon their resources, most importantly their people.

Each year HUD dedicates approximately 15-20 percent of its funds to the capital costs of housing and economic development projects throughout the country. Through this investment, 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. Programs such as the Community Development Block Grant (CDBG), and Choice Neighborhoods are targeted to areas of need, to provide locally driven solutions to overarching economic development challenges. As with HUD's rental assistance programs, HUD's capital grants—including the Public Housing Capital Fund, Choice Neighborhoods, CDBG, and HOME—tend to assist areas of great need, including communities with high unemployment.

Preserving HUD's Major Block Grant Programs for Community Development and Housing

The Budget demonstrates the Administration's continued commitment in a constrained fiscal climate to support municipalities and States as they navigate through a challenging fiscal climate. By maintaining the fiscal year 2012 CDBG formula funding level of $2.95 billion, CDBG will allow over 1,100 State and local governments to improve 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 fiscal year 2011 alone, local governments used CDBG funding to directly create and retain 21,482 jobs, not including any indirect effect on additional jobs. Moreover, in fiscal year 2011 CDBG assisted 96,615 households to maintain or gain access to safe, decent, and affordable housing; provide public service activities to 10.1 million people; and benefit approximately 4.1 million persons through public improvement investments. 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:
HOME Investment Partnerships

The HOME Investment Partnerships program is the principal tool for the production of affordable housing for low- and extremely-low income families by state and local governments. It is also the critical gap financing for LIHTC projects – it has created over one million units and an additional 250,000 households have been assisted with temporary rental assistance since the program's inception. The program leverages $4 in other public and private funds for every HOME dollar invested, totaling more than $88 billion over the life of the program.

The fiscal year 2013 HOME request reflects the difficult choices HUD was faced with, in order to make real progress in reducing the national deficit and contribute to creating an economy built to last. American families are tightening their belts – and we need to do the same. In addition, the fiscal year 2013 Budget includes two proposed HOME authorizing requests: to permit recaptured Community Housing Development Organizations set-aside funds to be reallocated by formula as HOME funds; and to facilitate the removal of dangerous tenants from HOME properties. We look forward to working together on these proposals.

Transforming Neighborhoods of Poverty

The President has made it clear that we cannot create an economy built to last if: a fifth of America's children live in poverty, at a cost of $500 billion per year—fully 4% of GDP—due to reduced skills development and economic productivity, increased later life crime, and poor health; a growing population lives with the problems of concentrated neighborhood poverty—high unemployment rates, rampant crime, health disparities, inadequate early care and education, struggling schools, and disinvestment—all of which isolate them from the global economy.

That's why HUD's fiscal year 2013 Budget provides $150 million for the Choice Neighborhoods Initiative to continue transformative investments in high-poverty neighborhoods where distressed HUD-assisted public and privately owned housing is located. This will reach four to six neighborhoods with implementation grants that primarily fund the preservation, rehabilitation and transformation of HUD-assisted public and privately-owned multifamily housing, and will also engage local governments, nonprofits, and for-profit developers in partnerships to improve the economic conditions in their surrounding communities. Moreover, the leveraging power that these grants have is real – to date, the five Choice Neighborhoods implementation grantees have leveraged a combined $1.6 billion in private funds – over 13 times their total grant award amount.

The Choice Neighborhoods initiative is a central element of the Administration's inter-agency, place-based strategy to support local communities in developing the tools they need to revitalize neighborhoods of concentrated poverty into neighborhoods of opportunity. The Department's administration of the first rounds of funding for Choice Neighborhoods 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. We are committed to a collaborative approach responsive to local needs – and believe the results thus far demonstrate that HUD is making good on that commitment.

Supporting Sustainable Communities and Innovative Infrastructure Planning

Creating an economy built to last requires creating jobs here in America to discourage outsourcing and encourage 'insourcing.' But 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.

With these realities in mind, the fiscal year 2013 Budget supports the multi-agency Partnership for Sustainable Communities, an Administration initiative that integrates resources and expertise from HUD, the Department of Transportation, and the Environmental Protection Agency. In particular, the Budget restores $100 million for the Sustainable Communities Initiative, which creates incentives for communities to develop comprehensive housing and transportation plans to achieve sustainable development, reduce energy consumption and greenhouse gas emissions, and increase affordable housing near public transit. This includes $46 million to fund about 20 additional regional planning grants to help enable communities to align public and private investments in housing, transportation, and infrastructure to strategically integrate goals for mobility, regional housing choices and economic development. In addition, $46 million will be invested in neighborhoods and communities to update building codes, zoning, and local planning efforts as complementary strategies to the regional grants.

We know how important these planning tools are to regional economies – particularly those which rely on integrated supply chains that cross national borders and are essential to meeting the President's charge to double U.S. exports over the next five years. These investments will also leverage and increase the ripple effects of other Administration proposals to overhaul America's deteriorating infrastructure, including the Infrastructure Bank, as well as Project Rebuild and other elements of the American Jobs Act, as we leverage increased residential and commercial construction around transit and other infrastructure investments.

Funding What Works:
The Leveraging Power of Sustainable Communities Funding

In fiscal year 2010, Austin, Texas, was provided a $3.7 million Regional Planning grant through the Sustainable Communities program. With this funding, the city is helping link its long-term regional transportation plan to 37 mixed-income communities near transit and job centers. This grant will help 3,000 small, family-run businesses expand or open a second location, provided that each of these businesses hires at least one new worker who has been unemployed for a year or more. This work is expected to create more than 7,000 permanent jobs and save the taxpayer $1.25 billion through better connected housing and businesses, more people employed and fewer people dependent on government services.

Ensuring Inclusivity in Housing Nationwide

An inclusive 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, expanded training and language assistance, HUD will affirmatively further fair housing and the ideals of an open society.

The Fair Housing Initiatives Program (FHIP) is critical to building and sustaining inclusive communities. FHIP is the only grant program within the federal government whose primary purpose support private efforts to educate the public about fair housing rights and conduct private enforcement of the Fair Housing Act. In Fiscal year 2013, HUD is requesting approximately $41 million in FHIP funds, representing the Department's commitment to fair housing, including $28 million to support the efforts of private fair housing organizations that conduct private enforcement of the Fair Housing Act. The Private Enforcement Initiative (PEI) grantees investigate and test housing providers alleged to have engaged in discrimination. The requested amount will continue funding to support fair housing enforcement by all statutorily eligible private fair housing organizations. In addition it will fund fair housing education at the local, regional and national levels.

The Fair Housing Assistance Program (FHAP) is a critical component of HUD's effort to ensure the public's right to housing free from discrimination. FHAP multiplies HUD's enforcement capabilities, allowing the Department to protect fair housing rights in an efficient and effective manner. In fact, FHAP agencies investigate the majority of housing discrimination complaints filed in the United States. FHAP provides funding for 98 government agencies, including 37 states, 60 localities, and the District of Columbia, to enforce laws that prohibit housing discrimination that have been reviewed and deemed substantially equivalent to Federal law. In Fiscal year 2013, HUD is requesting approximately $25 million in FHAP funds.

Ensuring that an Economy Built to Last Includes Opportunities for Rural Americans

The Administration has placed a significant emphasis on ensuring that America's rural communities are competitive in the global economy – particularly given the reality that rural communities generally have less access to public transportation, along with higher poverty rates and inadequate housing. Each year, HUD invests billions of dollars in rural communities through its core rental assistance programs and block grants. The Community Development Block Grant (CDBG) program allocates funds to states, which provides approximately $692 million to rural areas, supporting over 25,000 jobs both directly and indirectly, providing needed infrastructure, economic development, and affordable housing. 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. HUD also funds over $300 million in rural areas for affordable housing and homeownership programs through its HOME Investment Partnerships program, directly and indirectly supporting over 5,360 jobs.

In addition, HUD and the Department of Agriculture meet regularly through an interagency rental housing policy group to better align and coordinate the affordable rental housing programs each operates. Altogether, over 800,000 families in rural communities are directly assisted through the Housing Choice Voucher, Public Housing, and Multifamily programs, with another 450,000 assisted through USDA. For homeowners, HUD's Federal Housing Administration (FHA) helps first-time homebuyers and other qualified families all over the country purchase their own home. More than 1.5 million of the homes currently insured by the FHA are in rural areas, and approximately $545 million in current FHA loans are to rural healthcare facilities designated as "critical access hospitals." In addition to these critical investments, targeted rural investments in HUD's 2013 Budget include:

- $5 million in Rural Housing Stability Assistance Program (RHSP), as authorized in the HEARTH Act, designed to assist individuals and families who are homeless, in imminent danger of losing housing, or in the worst housing situations in rural communities. In addition to this focused RHSP initiative, rural communities will continue to have access to HUD's targeted homeless assistance, through the Continuum of Care competition grant, the Emergency Solutions Grant (ESG) program, and the Homelessness Prevention and Rapid Re-Housing Program (HPRP). Rural areas have increasingly gained access to HUD's competitive homeless assistance grants, primarily through the creation of Balance of State and Statewide Continuums of Care, with funds allocated directly to the state. In 2010, the Continuum of Care competition included a selection priority for new projects proposing to serve 100% rural areas. Organizations in 69 rural communities submitted applications for 108 new projects, requesting $19 million. HUD will apply the rural selection priority to new projects in the 2011 Continuum of Care competition as well.

- $731 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, 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 by providing funds to over 550 Tribes across the country. 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.

Goal 5: Transform the Way HUD Does Business

An economy built requires a government that's leaner, smarter, more transparent, and ready for the 21st century. The current economic and housing crisis; the structural affordability challenges facing low-income homeowners and renters; and the new, multidimensional challenges facing our urban, suburban, and rural communities all require an agency in which the fundamentals matter and the basics function. As such, HUD remains committed to transforming the way it does business. This transformation is more crucial now than perhaps ever before – HUD remains at the forefront of the Federal response to the national mortgage crisis, the economic recovery, and the structural gap between household incomes and national housing prices – roles that require an agency that is nimble and market-savvy, with the capacity and expertise necessary to galvanize HUD's vast network of partners. HUD's 2013 Budget reflects these critical roles, by investing in transformation, research, and development that will be implemented persistently over time.

The Transformation Initiative

Thanks to Congressional support for TI, past fiscal year appropriations are today funding a wide range of groundbreaking projects, including:

- Innovative, 'silo-breaking' One CPD technical assistance in communities across the country that replaces a fragmented broken system with one that addresses the holistic and cross-cutting needs of our grantees, recognizing that these extend beyond the rules and regulations of any single funding stream;
- Major evaluations and demonstration programs to examine the outcomes of key Administration initiatives like the Rental Assistance Demonstration and Choice Neighborhoods, the cost to local public housing authorities of administering the Housing Choice Voucher program, different approaches to rent reform in our largest programs, the housing needs of Native American and Hawaiian communities, and the impact of housing and services interventions on homeless families;
- Replacement of 30-year-old technology and information management practices to reduce risks, and implement higher performing, and cost effective business solutions to more effectively administer the Department's rental housing assistance programs.

The 2013 Budget request once again includes transfer authority (up to 0.5 percent at the Secretary's discretion, totaling up to $215 million) to support ongoing improvements of program effectiveness and efficiency and to help the Department respond and adapt more effectively to its rapidly changing operating environment.[2] TI is a multiyear effort that can only be achieved through the relentless focus of agency leadership, full transparency and accountability for real results, and sustained and flexible budget

[2] HUD estimates that it will transfer approximately $120 million into TI in FY2013.

resources. Since TI was first enacted in 2010, it has bolstered the long-neglected areas of IT modernization, research and evaluation, and program demonstrations crucial for increasing the efficiency and effectiveness of the Department's programs, and remains the primary source of funding for this transformation. Further, TI has provided a mechanism for innovative, crosscutting technical assistance that goes beyond program compliance to improve grantee capacity, performance and outcomes. Finally, recent crises with natural disasters, the housing market, and deep fiscal distress among state and local partners have highlighted the need for HUD to be more nimble, creative and collaborative. Setting aside a portion of HUD's program accounts through TI to better understand and enhance program results reflects recognition that planning for continuous improvement and innovation, investing in tools and capacity, and assessing results are equally integral for the operation of programs with accountability to the public interest.

Research and Evaluations

As an integral component of strengthening HUD's capabilities for evaluating and improving program effectiveness and efficiency, TI provides a predictable stream of funding for high quality research and evaluation of HUD's programs on an on-going, rotating basis to inform sound policymaking. HUD anticipates allocating 10-20 percent of TI transfers to Research and Evaluations in 2013. Expected projects include: a process evaluation of the evidence-based Jobs-Plus pilot, seeking to understand the effects of larger scale implementation; energy efficiency and utility costs analysis for PHAs and residents of public housing; biennial research NOFAs for Sustainable Communities Research Grants to inform local governments in preparing and planning for disasters; and a long-overdue follow-up to a 1995 HOME Affordability Study to assess affordability over time based on differing levels of subsidy.

Program Demonstrations

Program Demonstrations test new options for HUD programs that can make them more efficient and effective and establish sound evidence of whether and how these options could better achieve HUD's mission. Since the 1990s, HUD has done relatively few research demonstrations, largely due to budget constraints. Those few demonstrations, however, have been HUD's most important and informative research on real program impacts. In 2013, HUD expects Project Demonstrations to include research on the *Rental Assistance Demonstration (RAD)*, which allows a trial conversion of public housing and certain multifamily properties to long-term project-based contracts.

Technical Assistance

Technical assistance (TA) can be seen as a "force multiplier" – making program dollars go further and helping communities do more with limited Federal and local resources. TA under the Transformation Initiative (TI-TA) allows HUD to combine assistance for different programs as appropriate, and provide customized help on the issues any particular grantee confronts.

In 2013, HUD will utilize TI-TA for activities such as: assessments and targeted interventions for PHAs; helping local government comprehensively assess market trends and implement housing and community and economic development programs through OneCPD; and targeting underlying, long-term problems like deficits and poor bond ratings through the National Resource Network. Flexible, cross-program technical assistance could also help grantees and clients adapt to new HUD policies, programs, and management approaches, and develop core skills and critical competencies required to effectively deliver HUD's programs.

Information Technology

The Budget proposes to again use TI funds for Information Technology in 2013, to reduce risks, implement higher performing standards, and cost effective business solutions.

IT transformation efforts to date have helped HUD evolve its understanding of opportunities to leverage the foundational toolsets being implemented under the FHA Transformation, the Next Generation

Management project or NGMS (formerly known as NGVMS), and related infrastructure modernization projects. These opportunities include ways to further reduce the government's risk in the marketplace, improve services to meet the needs of our citizens and employees and reduce annual operations costs. For example, recent efforts to define opportunities to reduce cost by consolidating back office business and administrative services are expected to lead to the need for capital investment to transition more of HUD's services from legacy platforms to shared enterprise services. HUD plans to use TI transfer authority in 2013 to make capital investments in IT to drive these service delivery improvements and further cost reduction efforts.

Conclusion

Madam Chairman, this Budget reflects the Administration's recognition of the critical role the housing sector must play to ensure every American gets a fair shot, everyone does their fair share, and everyone plays by the same rules. 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 2013 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.

We believe that this budget will contribute substantially to economic recovery, to creating pathways to opportunity, and to an America built to last. Thank you.

February 23, 2012

Tom Latham, Chair
House Appropriations Subcommittee on
Transportation, Housing and Urban Development,
and Related Agencies
Room 2358–A Rayburn House Office Building
Washington DC 20515

Patty Murray, Chair
Senate Appropriations Subcommittee on
Transportation, Housing and Urban Development,
and Related Agencies
448 Russell Senate Office Building
Washington DC 20510

John Olver, Ranking Member
House Appropriations Subcommittee on
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and Related Agencies
1111 Longworth House Office Building
Washington DC 20515

Susan Collins, Ranking Member
Senate Appropriations Subcommittee on
Transportation, Housing and Urban Development,
and Related Agencies
413 Dirksen Senate Office Building
Washington DC 20510

Dear Congressmen Latham and Olver and Senators Murray and Collins:

We are writing jointly as non-profit and for-profit entities deeply concerned about maintaining decent, safe, affordable housing opportunities for some of America's most vulnerable households. Our members and local partners own or help finance hundreds of thousands of affordable rental homes receiving HUD rental assistance, occupied primarily by elderly, disabled, and low income households. We thank you for your critical support to the Section 8 program and the low-income individuals and families it assists.

HUD's Project Based Rental Assistance (PBRA) program provides rental assistance funding to multifamily rental housing owners to help them provide affordable housing to low and moderate income residents, which is sometimes the only source of affordable housing in a community. The Administration's proposed FY13 budget for the PBRA program is funded $1.5 billion below the FY 12 baseline funding level. The bulk of this shortfall would be met by "short funding" 10,600 contracts (including 739,000 Section 8 apartments) in FY 13 and deferring $1.1 billion in contract expenses to the FY 14 budget. The remainder of the gap would be met with questionable proposals to spend down property reserves, restate existing market rent standards, raise minimum rents for the poorest households, raise the threshold for medical deductions, and cap rents for properties with higher costs. We believe this is the wrong approach to ensuring the long-term viability of this badly needed housing and falls short of HUD's promise to fully fund, on a 12 month basis, contracts with private owners across the U.S.

Short funding PBRA contracts does not reduce federal expenditures. The proposed $1.1 billion "reduction" shifts costs to future budgets without actually achieving any savings. But in so doing, it increases administrative cost and complexity and raises real concerns for many properties and current residents. Avoided costs are simply deferred to FY 14, when Congress would be faced with a full 12 months of expenditures plus inflation and the need to address any possible administrative shortfalls.

Short funding increases complexity and creates opportunity for administrative error. The plan would require HUD to process funding for all affected contracts at least twice annually: once at the historical contract anniversary and once at the beginning of the fiscal year. The new processing at the beginning of the fiscal year would need to happen for all contracts simultaneously, and would have to be repeated each time HUD was funded by a Continuing Resolution in lieu of full-year appropriations. HUD's most recent experience with a similar PBRA cost-deferral attempt, in 2007, resulted in expenditure forecasting errors, a contract funding shortfall, late payments to owners, significant risk of opt-outs and defaults on FHA-insured mortgages, and ultimately the need for a $2 billion appropriation to restore full funding. No such funding infusion is likely to be available to reverse the short funding proposal in the President's budget request.

Short funding increases risks and costs for owners, lenders, and investors. For existing properties it creates a material change in the conditions for existing debt and investment, resulting in closer scrutiny of ongoing property operations. And for any prospective new acquisition and rehabilitation projects, owners will be required to increase debt coverage, provide additional reserves, and find additional sources of capital to satisfy potential lenders and investors. These all increase costs for owners and will reduce the number of affordable homes that can be preserved, the level of rehabilitation that can be achieved, the jobs created, and the projected useful life of repairs and improvements. All of this could have negative consequences for the 739,000 affordable rental units potentially affected by short funding of contracts.

According to HUD's own Congressional Justification for the PBRA program, "PBRA contracts act as a critical credit enhancement for project financing, allowing owners to leverage private debt and equity to permit project refinancing and recapitalization. ... The periodic refinancing of this debt generates significant capital available for investment in construction repairs and improvements. If funding for the PBRA program is not provided, the value of this underlying debt to both FHA and private lenders as well as existing equity in the physical structures would be severely eroded, contributing to significant loss of privately held wealth and community investment."

The proposal to short fund PBRA contracts creates real risks for residents and owners, would discourage new investment in affordable rental housing, and would result in reduced rehabilitation and job creation in the portion of the housing sector where there is the greatest unmet demand. We urge you to reject this proposal. As you move forward in the budget process, we urge you to continue to protect HUD funding by advocating for the largest possible 302(b) allocation to the Transportation, Housing and Urban Development, and Related Agencies Subcommittees.

Thank you for your consideration of this request.

Sincerely,

Affordable Housing Tax Credit Coalition
Enterprise Community Investment
Enterprise Community Partners
Housing Partnership Network
Institute of Real Estate Management (IREM)
Institute for Responsible Housing Preservation (IRHP)
LeadingAge (formerly AAHSA)
Local Initiatives Support Corporation (LISC)
Low Income Investment Fund (LIIF)
National Affordable Housing Management Association (NAHMA)
National Apartment Association
National Association of Home Builders
National Association of State and Local Equity Funds (NASLEF)
National Council of State Housing Agencies (NCSHA)
National Equity Fund
National Housing Trust
National Leased Housing Association
National Multi Housing Council
Stewards of Affordable Housing for the Future (SAHF)

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Squeezed in St. Paul

Under Obama pressure, the city pulls a Supreme Court case.

How far will the Obama Administration go to impose racial lending quotas for banks? Far enough to lean on St. Paul, Minnesota to deny the Supreme Court the chance to rule on whether the government's actions are legal.

In an extremely rare move, St. Paul officials on Friday withdrew their petition to have the Supreme Court hear *Magner v. Gallagher*, a case in which slumlords accused the city of racial discrimination for enforcing its housing code. The city says it has "focused on eliminating conditions such as rodent infestation, missing dead bolt locks, inoperable smoke detectors, poor sanitation, and inadequate heat."

The Supreme Court agreed to hear the case in November on whether "disparate-impact analysis," which uses statistics to prove racial discrimination, could be used under the 1968 Fair Housing Act. Oral arguments had been slated for later this month.

The Justice Department started a special unit in 2010 to pursue disparate-impact claims, which don't require proof of intent. Lower courts have loosely interpreted the Fair Housing Act to allow for disparate-impact analysis, which ignores other factors that affect lending decisions.

Bank CEOs have tended to settle these cases rather than risk bad publicity, and Justice has pocketed the cash to distribute to its political allies. The Department of Housing and Urban Development is also pushing a new rule to codify disparate-impact analysis under the Fair Housing Act, and the Consumer Financial Protection Bureau is making such lending enforcement a priority.

However, the Supreme Court has suggested in a related case that it may view the law differently, and *Magner* would have been the first time it ruled on disparate impact under the Fair Housing Act.

The prospect of losing this political hammer against banks sent the feds scrambling to stop the St. Paul case. Justice, HUD and former Vice President and Minnesota Senator Walter Mondale counseled the city, which is run by Democrats, against pursuing the case.

St. Paul released a statement Friday saying it "likely would have won" at the Supreme Court but that "such a result could completely eliminate 'disparate impact' civil rights enforcement, including under the Fair Housing Act and the Equal Credit Opportunity Act. This would undercut important and necessary civil rights cases throughout the nation. The risk of such an unfortunate outcome is the primary reason the city has asked the Supreme Court to dismiss the petition."

To sum up: St. Paul has spent taxpayer money for almost a decade fighting a case to force slumlords to provide the poor—including minorities—with better housing. But just as it was on the cusp of what it claims would have been a victory at the Supreme Court, the city withdrew its appeal under pressure from the Obama Administration and liberals who feared they might lose a weapon of dubious legality that they want to use to tell banks how and to whom to lend. It's enough to recall the old joke that liberals love the poor in theory—it's the actual poor they have a problem with.