

**THE FUTURE OF HOUSING IN AMERICA:
OVERSIGHT OF THE DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT**

HEARING
BEFORE THE
COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES
ONE HUNDRED FOURTEENTH CONGRESS
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THE FUTURE OF HOUSING IN AMERICA: OVERSIGHT OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Thursday, June 11, 2015

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

The committee met, pursuant to notice, at 10:07 a.m., in room 2128, Rayburn House Office Building, Hon. Jeb Hensarling [chairman of the committee] presiding.

Members present: Representatives Hensarling, King, Royce, Lucas, Garrett, Neugebauer, Pearce, Posey, Fitzpatrick, Luetkemeyer, Huizenga, Duffy, Hurt, Stivers, Stutzman, Mulvaney, Hultgren, Pittenger, Wagner, Barr, Rothfus, Messer, Schweikert, Guinta, Tipton, Williams, Poliquin, Love, Hill, Emmer; Waters, Maloney, Velazquez, Sherman, Meeks, Capuano, Hinojosa, Clay, Lynch, Scott, Green, Cleaver, Perlmutter, Himes, Sewell, Kildee, Murphy, Delaney, Beatty, and Heck.

Chairman HENSARLING. The Committee on Financial Services will come to order.

Without objection, the Chair is authorized to declare a recess of the committee at any time.

Today's hearing is entitled, "The Future of Housing in America: Oversight of the Department of Housing and Urban Development."

I now recognize myself for 3 minutes to give an opening statement.

As we approach the 50th anniversary of the founding of the Department of Housing and Urban Development, one can't help but be struck by President Johnson's boldness as he launched the Great Society with these words: "We have declared unconditional war on poverty. Our objective is total victory."

HUD was established 1 year later, in 1965, to become the war's main weapon for combating poverty, rebuilding our cities, and making housing more affordable for all.

Yet by nearly every official measure, poverty and its consequences are as bad as they were 50 years ago. The poverty rate today is essentially unchanged from when HUD was founded. Millions more Americans fall below the poverty line today, including an unbelievable one out of five children. This is shameful.

HUD states that its mission is to "create quality, affordable homes for all." Yet according to inflation-adjusted figures from the Census Bureau, since HUD was established, the median price of new homes has doubled and median rents have gone up by more

than one-third. In other words, it is not just the poor who find the cost of housing soaring beyond their means; it is almost everyone. This is unacceptable.

To make matters worse, to achieve this unenviable record, HUD has already spent \$1.6 trillion in its history and is asking for a 9 percent budget increase—\$1.6 trillion is more than \$13,000 for every household in America. It is equivalent to the cost of feeding a family of 4 for an entire year.

Meanwhile, one of the greatest threats to our poor continues to spin out of control—namely, the national debt clock. Given the Obama economy of the last 6 years, clearly, taxpayer rental subsidies for the poor are needed. But it is also an open question whether housing vouchers and public housing projects, HUD's mainstay, are a long-term solution or are simply helping to create a permanent underclass.

For whatever good HUD does, it clearly has not won the war on poverty. Only economic growth and equal opportunity can do that. In other words, the greatest housing program in America remains a good career path and a growing economy, not a HUD program.

If we truly care about the least of these among us, we can no longer measure success by the number of dollars appropriated to HUD. That should be obvious. Instead, success must be measured by the number of our fellow citizens who rise from lives of poverty and dependency to lives of hope, self-sufficiency, and pride. That is true success.

It is time to bring a new focus and new ideas on how to best help the poor in our society. On this purpose, which is a moral purpose, there should be no debate.

I have been encouraged to hear our witness, Secretary Castro, state that he believes in an "evidence-based management style," directed to the goal of "giving every person new opportunities to thrive." To give these opportunities, again, it is time to think anew, not to reflexively add 9 percent to programs that have failed, again in the words of President Johnson, to "not only relieve the symptoms of poverty but to cure it and, above all, prevent it."

I now yield 3 minutes to the ranking member for an opening statement.

Ms. WATERS. Thank you, Mr. Chairman.

And welcome back, Secretary Castro.

Today, we gather to discuss the future of housing in America. But, frankly, if left to my Republican colleagues, that future looks very bleak for many of our most vulnerable populations.

Mr. Secretary, HUD remains a critical part of our Nation's social safety net, and it is essential to ensuring that families have a stable roof over their heads. But, as we will see here today, my colleagues have no interest in strengthening our national housing system. Their priorities—that is, on the opposite side of the aisle—are clearly reflected in the recently passed HUD funding bill, which drives investment in this agency down to historic lows, undercutting programs which help families reach housing stability.

HUD provides critical rental and homeless assistance for our country's most vulnerable populations, makes important investments in local community development and affordable housing initiatives, and helps millions of families achieve the American Dream

of homeownership, all while ensuring fairness for historically disadvantaged communities.

Safe, decent, and affordable housing is critical to ensuring that our young people are healthy and successful. Studies have shown that children who lack stable housing often fall behind their peers in school.

And, today, HUD is more important than ever. In the wake of the foreclosure crisis, our Nation is facing a significant affordable rental housing shortage. Although private capital has an important role to play on this front, it cannot be leveraged without reliable Federal funding.

To truly address the acute need for affordable rental housing and the epidemic of homelessness, it is absolutely critical that we fully fund and expand the housing and homeless assistance programs that have been so successful at HUD.

This year marks the 50th anniversary of the establishment of HUD. And as I think about the next 50 years of housing in America, I believe that if we are truly serious about ending poverty and uplifting all communities, we must reinvest in HUD.

Mr. Secretary, I believe that these same principles also underlie your vision for the future of housing in America, and I look forward to hearing your testimony today.

Thank you, and I yield back the balance of my time.

Chairman HENSARLING. The Chair now recognizes the gentleman from Missouri, Mr. Luetkemeyer, chairman of our Housing and Insurance Subcommittee, for 2 minutes.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

And welcome, Mr. Secretary. It is good to see you again. I'm glad you are here with us today.

Mr. Secretary, I want to start by thanking you for traveling to Jefferson City a few weeks ago to meet with me, as well as area housing advocates and industry representatives. The common theme in those meetings was the dire need for regulatory relief. That was particularly true in the conversations we had with public housing officials.

I think Allen Pollock, the long-time executive director of the Jefferson City Public Housing Authority, best described the current state of play when he said that the funding situation isn't changing and that you, Mr. Secretary, need to take the initiative to reduce unnecessary burdens so that people can do their jobs with the resources they have been given.

In the last 2 weeks, I have visited sites run by two different public housing authorities, and just last week Mr. Cleaver and I held a roundtable with advocates and industry representatives to talk about the immense challenges facing low-income housing organizations.

When it comes to public and low-income housing, the status quo isn't acceptable. Anyone who says there isn't a need for reform or changes at HUD isn't listening to the advocates, the administrators, or the residents of public housing.

Mr. Secretary, you have been on the job for nearly a year now, and the most significant action you have taken at this point seems to be a cut of one-quarter of the revenue for the Federal Housing Administration, a move, as I stressed with your staff earlier this

week, that I believe continues to jeopardize homeowners and taxpayers. I have yet to see the changes necessary to build a stronger housing system for the American people. I know that you and I had some discussions, and you have some ideas, and I am looking forward to hearing about those ideas as the committee continues moves forward on this.

But again, I welcome you, and I look forward to your testimony and to talking with you here shortly.

Thank you. I yield back, Mr. Chairman.

Chairman HENSARLING. The gentleman yields back the balance of his time.

The Chair now recognizes another gentleman from Missouri, Mr. Cleaver, the ranking member of our Housing and Insurance Subcommittee.

Mr. CLEAVER. Thank you, Mr. Chairman, Ranking Member Waters, and members of the committee.

Mr. Secretary, good morning.

The Secretary visited the Fifth Congressional District of Missouri not long ago. He actually visited both the other side of our State with Mr. Luetkemeyer and then came to the better side of the State and spent time in Kansas City.

And so we are here today with the hearing entitled, "The Future of Housing in America: Oversight of the Department of Housing and Urban Development." I think it is always important to look to the future, and hopefully this hearing will deal with the future more than the past, otherwise we are like somebody trying to drive a car looking through the rearview mirror. I think we have to go to the future, and figure out the things that we can do that would be important.

But if we look at the past, I think it is important for us to think about the fact that when the economy teetered on the brink of cataclysmic collapse in 2008, the housing market was decimated, some families had lost generations of wealth, and unemployment skyrocketed. Home sales ground to a halt.

And in the 7 years since, our economy has slowly improved. Last week, in their monthly report, the Bureau of Labor Statistics announced that the economy added 280,000 new jobs in the 63rd consecutive month of private sector job creation. Private-sector employment rose by 262,000. HUD's April 2, 2015, housing scorecard cited the National Association of REALTORS® stating that sales of existing homes, including single-family homes, townhomes, and condominiums, rose 6.1 percent from February to a pace of 5.19 million, the best since September 2013.

So I think there are some things that certainly we can do better, but I am very pleased, Mr. Secretary, that HUD is, in fact, doing a lot of things well.

I yield back, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired.

At this time, it is my pleasure to welcome the Honorable Julian Castro back to our committee.

The Secretary was sworn in as the 16th HUD Secretary on July 28, 2014. He has been introduced before, and needs no further introduction.

At the Secretary's request, before I recognize him to give an oral summary of his written testimony, the Secretary has asked to be yielded a minute in order to offer a statement of honor on behalf of a HUD colleague who passed away this week.

So for that purpose, Mr. Secretary, you are recognized at this time.

Secretary CASTRO. Thank you very much, Chairman Hensarling, Ranking Members Waters, and members of the committee. Thank you for inviting me to appear before you today and for giving me a bit of extra time to talk about one of our HUD family who passed away earlier this week, our Chief Financial Officer, Brad Huther.

Brad really set the gold standard during his career for public service over a career that spanned 3 decades. He was a leader whose intellect allowed him to master complex subject matter and policy, and whose integrity made him a champion for everyday folks, who often count on effective government the most.

After a decorated economic development career that included time at the U.S. Department of Commerce, and the World Intellectual Property Organization, Brad came out of retirement in 2014 to join us at HUD. And although he was only with us for a short time, he made large contributions to our Department and to its work on behalf of the American people.

He was an administrator's administrator, a man of integrity, someone whom all of us respected and had confidence in. And his passing is an incredible loss for the field to which he contributed so much over his career.

And, Mr. Chairman, I just wanted to say that our thoughts and prayers at HUD are with Mr. Huther's family, and I wanted to acknowledge him in front of this committee because I know he had the opportunity to work with many of you, as well.

Chairman HENSARLING. Mr. Secretary, on behalf of the House Financial Services family, we issue our sincere condolences to your colleagues as part of the HUD family on the gentleman's passing.

At this time, Mr. Secretary, I will recognize you for an oral summary of your written testimony. Please know that your complete written statement will be made a part of the record. Again, welcome, and you are now recognized for your testimony.

STATEMENT OF THE HONORABLE JULIAN CASTRO, SECRETARY, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Secretary CASTRO. Thank you again.

Mr. Chairman, we gather today at a very special moment for HUD. This year marks our 50th anniversary.

I think all of us would agree that much has changed since 1965, but one thing hasn't: the important role that quality housing and strong communities play in the lives of the American people. Where a person lives often shapes how they live, the jobs that are available to them, the education that their children receive, and the overall quality of life that they enjoy.

That is why all of us at HUD come to work every day knowing that we can make a difference for others. And I am proud to say we are making an impact in a number of ways.

For example, HUD, along with our Federal and local partners, continues to make progress toward achieving the goals of President Obama's Opening Doors initiative to prevent and end homelessness. From 2010 to 2014, we have seen a 21 percent drop in chronic homelessness and a 33 percent drop in veteran homelessness. And we will keep working until we reach that day when every person who needs housing can find it in our great Nation.

We also continue to make important strides in helping families of all income levels secure a decent place to call home. One example is our innovative Rental Assistance Demonstration, which has helped communities leverage nearly \$1 billion in private market construction investments to address long overdue repairs to public housing. And with an additional \$5 billion coming down the pipeline, it is clear that we are going to help ensure that public housing is quality housing for years to come.

We are also helping more responsible families achieve their dreams of homeownership through our Federal Housing Administration (FHA). FHA served as a stabilizing force during the housing crisis and has provided access to credit for generations of underserved borrowers.

We built on this legacy earlier this year by making responsible homeownership more affordable by lowering our annual mortgage insurance premium half a percentage point to encourage another 250,000 new borrowers to enter the market over the next 3 years, all while continuing to strengthen FHA's financial health.

HUD is making a tremendous difference across-the-board, and we all must continue working to do more. In fact, under HUD's current budget, we are able to serve only one out of every four people who are eligible for our assistance. That is why we are examining our own operations to see how we can deliver results faster and more effectively to those whom we serve.

I have charged HUD's Deputy Secretary, Nani Colorette, with making operational efficiency her top priority, and she has hit the ground running. The Deputy Secretary has spent her first 6 months leading an operational and management review that we call "Deep Dives." With many of these findings in hand, we are now taking action to improve how we do business to build on what is working and to adjust what needs improvement.

One area of focus is our procurement process, which can take over 9 months to complete from beginning to end. These delays are unacceptable, which is why we have embarked on an effort to transform this process and reduce procurement days by 30 percent.

In addition, by October 1st, we aim to reduce or resolve 10 out of the 11 material weaknesses outlined in our Fiscal Year 2014 annual financial review. We are also using shared service providers to minimize our unnecessary back-office functions so that we can better serve our Nation's families and communities.

At the end of the day, we know that our work isn't about program names or statistics or charts; it is about people. No matter what side of the aisle you are on, I am sure that we can all agree on one thing: that our Nation is at its best when every person has an opportunity to thrive. And the work that HUD does gives folks the opportunity to thrive.

Working with our partners, we have given this opportunity to those experiencing homelessness who wanted a fresh start; to veterans who needed a little support adjusting to life after service; to older Americans, who deserve to live in comfort and dignity; and to families who are looking to buy their first home, put down roots, and build wealth for themselves and their children. And we continue to look for new ways to extend these opportunities to all Americans.

Our partnership with Congress is essential to this work, and we look forward to working with you to secure funding that invests in proven housing initiatives to build a better and stronger HUD and to help more families achieve their own dreams. Through the strength of our partnerships, the power of our policy ideas, and our hard work, I am confident that we can ensure that the doors of opportunity are available to Americans today, tomorrow, and for the next 50 years.

Thank you very much.

[The prepared statement of Secretary Castro can be found on page 62 of the appendix.]

Chairman HENSARLING. Thank you, Mr. Secretary.

The Chair now yields himself 5 minutes for questions.

Mr. Secretary, I am sure you are aware that this year doesn't just mark the 50th anniversary of HUD; it also represents the 50th anniversary of the Moynihan Report, which many historians actually believe provided the impetus for the creation of HUD in the first place.

Recently, the Urban Institute published a report entitled, "The Moynihan Report Revisited." Are you familiar with the report, or have you had an opportunity to read it?

Secretary CASTRO. I have not had an opportunity to read the entire report, no. I did see some press about it, yes.

Chairman HENSARLING. Well, Mr. Secretary, in that report, after alluding to the alarming statistics of 50 years ago in the original report, it goes on to say about those statistics that, "They have grown worse, not only for blacks, but for whites and Hispanics as well."

You weren't even born when HUD was first created, but after 50 years, regarding \$1.6 trillion, your requested 9 percent increase, specifically, what is the statistical evidence that HUD has made progress in achieving its original goal of eliminating poverty?

Secretary CASTRO. Yes. Thank you very much for that. Let me give you two examples, Chairman Hensarling. Thank you for bringing up that report.

Let me begin by saying that I see it differently. I do believe that we have made tremendous progress in the lives of Americans because of the investments that HUD has made. In fact, if we need proof of that, we can look at some of the committee members here who grew up in public housing, and who have been very clear that the fact they grew up and had a place to live, in public housing, is one of the reasons that they were able to achieve success—

Chairman HENSARLING. Mr. Secretary, I am aware of the stories, and they are certainly inspirations to us all. But the statistics I see show that poverty is essentially unchanged after 50 years. So, let's just start off with the statistical evidence.

Secretary CASTRO. Yes. So let me—

Chairman HENSARLING. Do we have statistical evidence that HUD has actually played a role in eliminating poverty?

Secretary CASTRO. Yes. I will give you a couple of examples.

One of the examples I mentioned in my opening statement is veteran homelessness. We have seen a 33 percent reduction in veteran homelessness, and a large part of that is because of HUD-VASH vouchers that have been funded by this Congress. And the President has led that effort to effectively end veteran homelessness.

Another example—

Chairman HENSARLING. Over what time period, Mr. Secretary?

Secretary CASTRO. We have seen a 33 percent reduction in veteran homelessness between 2010 and 2014.

Another example is our Jobs-Plus initiative. There has been research done on Jobs-Plus that has shown that individuals who went through Jobs-Plus—which Congress has also funded in the past and for which we are requesting a significant increase because of its effectiveness—tend to earn 14 percent more than individuals who do not and that—

Chairman HENSARLING. So why is the poverty level essentially unchanged in 50 years?

Secretary CASTRO. Mr. Chairman, I believe that the answer to that is much larger than HUD and its programs. Not only that—

Chairman HENSARLING. Let me ask you this, then, Mr. Secretary, in the limited time that I have. You and I have had private conversations, and, again, I have been encouraged by many things that you and I have spoken about, but I am still somewhat unclear, at the end of the day, as Secretary, how do you measure success at HUD? How is success measured? How do you define it, and how do you measure it?

Secretary CASTRO. We measure success in several ways. You and I have had conversations about how we need to continue to get better about not just measuring input, how much investment we make, but also measuring outcomes.

One outcome is the fact that somebody has a roof over their head. That makes a tremendous difference in their life. We have seen that, for instance, through Housing First, which tries to give veterans housing first so that they can stabilize themselves and then address other issues to get on the right track in life.

However, I believe that we need to continue to measure, when we invest in things like Jobs-Plus, Family Self-Sufficiency, and the Resident Opportunities and Self-Sufficiency (ROSS) program, the extent to which those individuals who go through those programs go on and get good job training and get a job, the extent to which they get a good education, and that they are able to move up and out.

Chairman HENSARLING. Mr. Secretary, my time is winding down. Let me ask you three specific questions.

Number one, in tracking people's right to rise, their ability to succeed, does HUD currently have any way of tracking when an individual leaves the assistance of one PHA and moves to another? Does HUD have any way to track that?

Secretary CASTRO. HUD does track who is on the rolls of—

Chairman HENSARLING. But do you have a way of tracking if someone leaves one PHA and goes to another?

Secretary CASTRO. I believe that we do have the opportunity to track that, Mr. Chairman.

Chairman HENSARLING. Okay. I would like to have you share that with this committee, because—

Secretary CASTRO. Sure.

Chairman HENSARLING. —I haven't seen those statistics.

Do you have a way of tracking when someone leaves a PHA and becomes homeless?

Secretary CASTRO. When someone leaves a housing authority and becomes homeless?

Chairman HENSARLING. Do we have any way of knowing, if someone leaves a HUD program, whether or not they become homeless?

Secretary CASTRO. I believe that we have a way to track within a continuum of care how many individuals are homeless. As to whether that person was—

Chairman HENSARLING. If you would share that with the committee, because I haven't seen that.

And then last but not least, since I am already way over my time, is there any way that HUD today can track when people become self-sufficient and stay that way, say, 3 years or 5 years later?

Secretary CASTRO. Yes. I—

Chairman HENSARLING. Do you have any way to track that?

Secretary CASTRO. —would be glad to share with you the evidence that we do have on that. Sure.

Chairman HENSARLING. So you can track that?

Secretary CASTRO. We have done some tracking of self-sufficiency, particularly—

Chairman HENSARLING. For individuals.

Secretary CASTRO. —particularly on the Family Self-Sufficiency Program.

Chairman HENSARLING. Mr. Secretary, I haven't seen it, so I look forward to receiving it.

I am way over my time.

Secretary CASTRO. Sure.

Chairman HENSARLING. I now yield to the ranking member for 5 minutes.

Ms. WATERS. Thank you very much, Mr. Secretary. We are delighted that you are here with us this morning. And we thank you for the way that you have come into your position and the leadership that you have provided thus far.

And I am very pleased to hear from Members on both sides of the aisle how generous you have been in visiting—

Secretary CASTRO. Sure.

Ms. WATERS. —their communities and how you have been so very, very helpful.

I think I want to ask you a little bit about the rental housing and homeownership crisis that we have.

In the current rental housing crisis, rent is taking a larger share of income, and families are facing greater challenges in saving for

a downpayment and being able to own a home. This could have serious negative consequences for the housing market.

Just this week, again, the Urban Institute released a major study which predicts that the homeownership rate will continue to decline through 2030 and that a major rental surge is upon us—a surge that we are truly not prepared to meet. The homeownership rate will decrease for nearly all age groups, and African-Americans will fall further behind all racial groups in homeownership.

What is your vision for how we solve this problem? And how can HUD, given the proper resources, enable more families in this country to own a home or affordably rent one?

Secretary CASTRO. Yes. Thank you very much for the question, Ranking Member Waters.

You are correct that what we see out there in the United States right now is an affordable housing rental crisis. A good example of this, a good demonstration of this was in our latest “Worst Case Housing Needs” assessment. What that found was that there are 7.7 million low-income households who either are paying 50 percent or more of their income in rent, are living in substandard housing, or both of those things. And those families, by the way, are families who are not on any government assistance right now.

Another report was released last week by the Low Income Housing Coalition that was fascinating in what it found. It said that in no decent-sized city in the United States could you afford a two-bedroom apartment, a decent two-bedroom apartment, working minimum wage full-time, and that in the vast majority of communities, you couldn’t even afford a one-bedroom apartment.

So what is HUD doing about that? That is why we have requested additional Section 8 vouchers, for instance, because we lost 67,000 Section 8 vouchers through sequestration. It is why we seek to stretch our resources as far as we can through initiatives like the Rental Assistance Demonstration (RAD). It is why we believe in properly funding both capital and operating for public housing and why we look to be innovative in communities with initiatives like Choice Neighborhoods and Promise Zones.

We want to take a holistic approach to making more affordable housing opportunities possible for Americans. And, as I mentioned early on, right now we are only serving one out of every four people who qualify for HUD services. So we see that there is a tremendous need out there, and we want to do something about it.

Ms. WATERS. I thank you very much.

In the National Housing Trust Fund, we have a deficit of over 7 million affordable available units. And we all know that Barney Frank worked very hard—I worked with him—to get the National Housing Trust Fund.

We don’t seem to have much support from our friends on the opposite side of the aisle. We must find ways to fully capitalize the Trust Fund and defend against Republican attacks to abolish the program, including the latest attack in the House funding bill.

Can you speak to this issue quickly?

Secretary CASTRO. Yes.

I was glad to see Director Watt flip the switch on the National Housing Trust Fund. This is particularly important and will be a powerful tool in creating more affordable housing opportunities be-

cause it focuses on extremely-low-income individuals. These are individuals who are making 30 percent or less than area median income. Sheila Crowley testified recently in front of Chairman Luetkemeyer that that is the segment of the population where we see the biggest gap in terms of affordable housing opportunities.

And so we are disappointed in the Transportation, Housing, and Urban Development's (THUD's) recommendation that this be essentially wiped away and that HOME take its place. Those two programs have separate identities.

Ms. WATERS. Thank you so very much.

I yield back the balance of my time.

Chairman HENSARLING. The gentlelady yields back.

The Chair now recognizes the gentleman from Missouri, Mr. Luetkemeyer, chairman of our Housing and Insurance Subcommittee.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

And, again, welcome, Secretary Castro. And, again, thank you for stopping by our district, the jewel of the Midwest and the most important area in Missouri, contrary to my good friend from Kansas City's comment.

But, again, I am just kind of curious. We had a meeting last week, the ranking member and I, with a bunch of industry and housing officials. And they came up with a lot of different concerns, but the same message that we heard in Jefferson City that day, and the same message I heard again last week: Regulation is strangling their ability to deliver services.

Let me just give you an example of some of the things that they were talking about here. I see one of the advocates here this morning, and I will give you a couple of his ideas.

Number one, recognize that you don't have the same amount of funds that you would like to have, and figure out how you can use what you have more efficiently. If the Moving to Work (MTW) program works, expand it. If regulation is costing too much money, figure out how to minimize it. Raise the minimum rent.

Another one we talked about was flexibility. Flexibility is going to be very important for them to be able to utilize the assets they have and to be able to serve the people they are supposed to serve.

Another comment they had was that there is an inconsistency between regions of HUD's offices, especially with regard to transportation issues. It is hard for one area to look at another area and see that they are getting to do something and that you are not, and that is a problem within your agency.

I know in our discussions, you were trying to look for some ways to improve services, and these are some suggestions we have. So I guess my question to you is, are they something that you could work on with us?

Secretary CASTRO. Absolutely.

Let me say I also enjoyed the opportunity to visit Jefferson City and to hear from folks in the real estate industry and also some of the advocates, including PHA representatives. It was very insightful to hear particularly the concerns of a smaller PHA.

And let me say unequivocally that, as I mentioned that day to you personally, we are ready to work with you and with the entire committee and with Congress on some of these issues.

I will give you an example of that. One of the things that was mentioned was this issue of the administrative burden related to income verification. Why do we require income verification every year for certain residents who are making the same income, basically, year after year? That is a good question, because 56 percent of our households who are HUD-assisted are elderly or disabled. So we are supportive of a change to that, which would only require income verification every 3 years for folks where at least 90 percent of their income is fixed-income sources.

And with regard to MTW and the other issues that you mentioned, we are working on that. In this budget, for instance, we have proposed an increase of 15 MTW agencies that would have greater flexibility. And we are willing to look at these other issues, as well.

Mr. LUETKEMEYER. Thank you for that. And we look forward to working with you on those issues.

You made a comment a minute ago that there were 67,000 HUD vouchers that you said were cut out of the budget. In my discussions with a lot of the individuals in the industry, they made it seem like there were about 200,000 that went unused. Is that true? That they—

Secretary CASTRO. I am not familiar with that—

Mr. LUETKEMEYER. —were not able to access them because they didn't have the funds or administrative opportunities or there were restrictions. Somehow, they couldn't utilize all of them.

Secretary CASTRO. That may have been true some time ago. However, what we saw when we went through sequestration is that folks out there, PHAs actually had to pull vouchers back. Instead of letting them out on the street, they had to inform families, no, no, you can't use that voucher.

Mr. LUETKEMEYER. Well, I am—

Secretary CASTRO. So we are trying to get back to where we were before.

Mr. LUETKEMEYER. These are people who are on the ground who are using these, and they are saying there are a lot of them that are left unused because of the problems that they have to deal with—the restrictions, the lack of flexibility, the whatever it is that is causing them not to be able to that.

So I think it is something that you need to take a look at, because if we have them going unused, we need to—throwing a figure out, the 67,000, because of sequestration is not going to fly.

Next, we had a long discussion with a group of your folks with regard to the income that was cut back in January. And, again, it really concerns me because according to your quarterly report, which I have right here, you are continuing to take in or lend to a group of folks who are probably more problematic, from the standpoint of you now are going to the 640 to 679 credit scores, which is fine, but by doing that, they expose you to more risk. More risk means more possible loss.

And if you look at the losses, I really have some problems here with some of the loss information in the report. In one place, it says you have lost \$7.5 billion over the first half of the year, which means you are going to lose \$15 billion this year. In another place, it says that your loss ratio will probably go down, which is great,

but that number doesn't jibe with this other one. So I am kind of concerned about that.

But I think the bottom line is there seems to be a continued problem, in my mind, with regard to the ability of income to cover the expenses. And we are going to watch it very carefully. I hope that this all works out.

Thank you, Mr. Chairman. I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Missouri, Mr. Cleaver, the ranking member of our Housing and Insurance Subcommittee, for 5 minutes.

Mr. CLEAVER. Thank you, Mr. Chairman.

Mr. Secretary, I don't know how we are going to be able to erase this stereotype or the misinformation that seems to be eternally out here in the world, that people who live in public housing move in and their goal is to stay for an entire lifetime. The facts don't match the stereotype. If you have children living in a multi-family property, the average stay is about 5.14 years. That is about the time that my family lived in public housing. And that is just so dramatically different than what people seem to want to believe and how it is perpetuated.

Do you have any ideas for how we can erase that misinformation that seems to be all over the country? And I think there is always some resentment from those of us who—in my case, I saw my father work three jobs to save enough money to buy a lot to get a house. And other families were doing the same thing. But I don't know how we get that out.

So my father, who is 92—and if this is on C-SPAN, he is probably watching. So thanks for everything, Daddy.

But I don't know—it is an insult to him and a lot of other people. How can we erase this?

Secretary CASTRO. Yes. It is a great question. And let me say, as well, as I enjoyed visiting with Chairman Luetkemeyer in his district, I also enjoyed visiting with you in your district, Ranking Member Cleaver.

You ask a great question. And what we see every day is that, whether it is in public housing or folks receiving a Section 8 voucher, we see folks who want to work hard and want to get on the track to a better life. And we understand that our investment in public housing and in HUD-assisted housing is a way to get them on that track.

I reject the notion that somehow folks who are living in public housing are lazy or that it creates a culture of dependency. The fact is that 56 percent of the households that we serve are headed by someone who is elderly or disabled to begin with. And, of the rest, a significant number of the folks are under the age of 18; they are children.

Of the folks who are working age, a decent number of those folks are working. And if they are not working, then they are required to do some sort of community service or be in school or go through job training. So, this is very much an opportunity for folks to get onto the track of a better life that they want to get on.

Mr. CLEAVER. Thank you. And I agree, obviously, with everything you have said. It is so frustrating to hear to the contrary.

Let's talk about FHA for just a moment, because FHA plays a major role for first-time home buyers. And FHA has helped almost half-a-million people get into homes since 2014, and about one-half of them are brown and black Americans.

Do you believe that FHA, as we talk about the future, is one of the agencies that absolutely must be preserved so that we can continue to provide this kind of assistance to first-time home buyers as well as others?

Secretary CASTRO. FHA plays an invaluable role in creating upward mobility in our Nation for people of all income levels. It has been the primary vehicle for first-time home buyers to get into a home, people of all different backgrounds. As you mentioned, for the African-American and Latino communities today, about 50 percent of those home buyers have an FHA-insured loan.

Over the last couple of years, we have seen the Mutual Mortgage Insurance Fund rise in value by \$21 billion. It is on the right path.

So, yes, we need to do everything that we can to continue to strengthen FHA and ensure that it is there to provide that opportunity for folks to reach the American Dream.

Mr. CLEAVER. Thank you.

It may be also important to realize that those individuals qualified for the loan, that they were not just—

Secretary CASTRO. Sure. And I know there are a few seconds left. We have to distinguish between the issue of affordability and access.

What we did was that we lowered the mortgage insurance premium, so we made it more affordable. That did not in any way change who qualifies for a loan. We still have, historically, a fairly high average credit score for FHA-insured loans of 677. The average credit score out there is 687, to give you a sense of the closeness of those numbers.

Mr. CLEAVER. Thank you, Mr. Secretary.

I yield back, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from New Jersey, Mr. Garrett, chairman of our Capital Markets Subcommittee.

Mr. GARRETT. Thank you, Mr. Chairman.

Mr. Secretary, something we can agree on is that the Fair Housing Act makes it unlawful to refuse to sell or rent a dwelling to any person because of race, color, religion, sex, or national origin. And that is the law, as it should be.

However, HUD's Disparate Impact Rule allows you, the government, to allege discriminatory practices based not on intent, but solely on statistical outcomes, and not, as I say, on any discriminatory intent or disparate treatment.

As a result of that, the cost of litigation is strangling the market, and the availability of credit is thereby cut back on lending to potential homeowners—the very same potential homeowners that we hear you say that we are trying to help. Therefore, what it does is to reduce the supply of new affordable housing, as builders basically back away from the projects that are vulnerable to litigation from you. We are basically punishing the people that we are trying to help.

Let's take a look at your agency. In the 2014 FHA annual report to Congress regarding the financial status of the Mutual Mortgage Insurance Fund, it says that FHA indicated that its single-family endorsements for that year were, what, 61 percent, as you put in your report, to Whites, 17 percent to Hispanics, and 10 percent to Blacks.

Statistically, is that not disparate impact? Statistically, is that not your agency discriminating? Are you doing anything about that?

First of all, is that disparate impact?

Secretary CASTRO. I reject that premise. Thank you, Congressman, for the question, but—

Mr. GARRETT. Then, let me just ask—

Secretary CASTRO. —I think it is misguided.

Mr. GARRETT. Not the premise—

Secretary CASTRO. And I think you know what I am talking about.

Mr. GARRETT. Let me ask you, is that a disparate impact—

Secretary CASTRO. That is not at all the way that disparate impact has been analyzed or used. As you know, this is in litigation. And I will say that I believe in disparate-impact analysis and that, if we look at the legal rationale for that and how that actually plays out—

Mr. GARRETT. Let me just ask you—

Secretary CASTRO. —I have confidence in the way that it has been used.

Mr. GARRETT. Let me just ask you, is a 40 percent disparate impact, disparate impact? The population of the Black community is around 13.5 to 14 percent. You are lending or endorsing to only 10 percent.

Secretary CASTRO. This issue would never come up in that context. You are taking it completely out of context.

Mr. GARRETT. No. Well—

Secretary CASTRO. It would never come up in that context. And that is not the context that it is being litigated about either.

Mr. GARRETT. No. That is because you are litigating against lenders and the like, or people in the housing industry. I am asking about what you are doing. Is what you are doing disparate impact? Should we use disparate impact theory against you? And if it is fair against them, is it not fair against you?

Secretary CASTRO. What we need to do—

Mr. GARRETT. Yes.

Secretary CASTRO. —is to preserve disparate-impact analysis because it is important to determining where there is a discriminatory impact and where other tools can be utilized to have a better impact.

Mr. GARRETT. So what is—

Secretary CASTRO. In fact—

Mr. GARRETT. —a disparate impact? What percentage off is a disparate impact?

Secretary CASTRO. I reject that notion, Congressman. These are issues that are applied in very fact-specific cases.

Mr. GARRETT. So what are the—

Secretary CASTRO. And I reject the notion of a hypothetical that would never come up in the first place to try and analyze such a serious topic.

Mr. GARRETT. So you cannot define for us what percentages are disparate impact even though your agency brings those lawsuits?

Mr. CASTRO. You know very well that the definition of what a disparate impact is changes in different scenarios, in different industries, and as that is applied to different cases.

Mr. GARRETT. Exactly. And isn't that the exact problem?

Secretary CASTRO. No. I think that is part of the strength of the tool—

Mr. GARRETT. No, it isn't.

Secretary CASTRO. —that it is not a one-size-fits-all tool. It is a very sensitive tool—

Mr. GARRETT. So what you are saying—

Secretary CASTRO. —in analyzing the context of individual cases.

Mr. GARRETT. So what you are saying is, if I am a lender or a builder, a homebuilder, I don't know what your charge against me is going to be because, as you just stated right now, it changes from circumstance to circumstance.

Secretary CASTRO. Not at all.

Mr. GARRETT. There is no clear definition of what disparate impact is—

Secretary CASTRO. Not at all. In fact, disparate-impact law and the burden-shifting that happens if it is litigated actually gives the defendant an opportunity to show that there is a legitimate business reason for why those statistics are the way they are. And then, when they demonstrate that, it forces the plaintiff to actually have to come back and show that, no, you should be doing it a different way that would be more effective and have not so much of a disparate impact.

So the burden-shifting—

Mr. GARRETT. But by your own testimony—

Secretary CASTRO. —the burden-shifting that is involved there actually protects the defendant.

Mr. GARRETT. The defendant, only after he has been brought to court, hired attorneys, gone through the expense of this, and having to put a defense on something that you have just told me and told this hearing that you do not have a definition of what it really means. So—

Secretary CASTRO. That is not true. As a lawyer, there are plenty of lawsuits that are thrown out summarily, and so I am not sure what you are talking about. There are plenty of the lawsuits that are thrown out summarily, dismissed.

Mr. GARRETT. Only after the defense has to defend the charge of disparate impact that you have just told this hearing there is no—

Secretary CASTRO. I would just encourage you to look at—

Mr. GARRETT. —definition to it.

Secretary CASTRO. Just look at the track record of disparate impact. And it has had a good track record in terms of its usage.

Mr. GARRETT. What I see is disparate impact apparently by your very own agency, and I—

Ms. WATERS. Regular order, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentlelady from New York, Mrs. Maloney, ranking member of our Capital Markets Subcommittee.

Mrs. MALONEY. Thank you so much, Ranking Member Waters and Chairman Hensarling, for this important hearing.

And I thank you, and HUD, for all you do for affordable housing in America.

Two programs that I am constantly asked about are Section 8 and the Section 202 program, which does so much to provide housing for seniors. And, according to your own study, seniors with low incomes are the most likely to pay more than they can afford for their housing than any other sector in our society.

This program is very important not only to New York but, I would say, the whole country. And I am concerned that we don't have enough funding to meet the rising demands for affordable senior housing. The capital advance, the new construction, I understand, has been frozen, has very little in it. And, according to the AARP, for every Section 202 unit that becomes available, there are well over 10 seniors on a waiting list.

So can you describe what HUD is doing to meet the demand, the rising demand for affordable housing for seniors under the Section 202 program?

Secretary CASTRO. Thank you very much, Representative. I do appreciate the chance to speak to this, particularly because as much fuss is made over the idea of these millennials and young people, and cities are chasing these millennials, we all know that the fastest growing segment of the population is actually our Baby Boomers, who are turning 65, who are elderly, and who are spread out in every single community out there and are a focus of the Section 202 program.

We are requesting an additional investment in Section 202, particularly for a demonstration project, in this budget. This demonstration project would allow us to show the linkage between our investment in housing for the elderly and a reduction in healthcare costs. Because we believe that it is important to show that does exist, and hopefully that will inform policy in the future, because by spending a little bit for housing and supportive services on one end, you can actually save money in the healthcare system on the other. That is the hypothesis.

But more broadly, as I mentioned a few moments ago, 56 percent of the households that we serve are actually headed by someone who is elderly or who is disabled. And that goes across HUD-assisted housing. So our service to elderly Americans is by no means limited to Section 202; it is also public housing, it is Section 8, project rental assistance. And it is part of the reason that we are requesting greater levels of voucher and funding for our traditional housing programs.

Mrs. MALONEY. Thank you.

The other HUD programs that I am interested in supporting additional support for are Section 3, the earned-income disregard in public housing, and the Family Self-Sufficiency Program. These are important tools for the Department and local housing providers to help families earn more income and achieve more economic mobility.

Can you talk about the importance of these programs and policies and how we can work with you and the Administration to strengthen and expand them?

Secretary CASTRO. I can.

We want the folks that we serve—whether it is Section 8 vouchers or in public housing—who are working age, to be able to have gainful employment and eventually not need our public assistance. I agree with folks on that point. And one tool that we can use is Section 3.

Section 3 says that, when an investment is made—let's say there is construction that a PHA does—that the contractors make best efforts to hire low-income individuals in that area, including public housing residents. So this gives folks an opportunity to get a good job, to be able to provide better for their families, and hopefully to use that to move up and out eventually.

Recently, we promulgated a new rule on this to give communities stronger guidance on the use of Section 3.

This is about investing in economic opportunity for low-income individuals. And we look forward to working with you, the committee, and Congress to ensure that we can make the most of Section 3. Because the fact is, frankly, that the track record is checkered for housing authorities out there in how much they have utilized Section 3, and we want there to be consistency in the utilization of Section 3.

Mrs. MALONEY. My time has expired. Thank you.

Chairman HENSARLING. The gentlelady yields back.

The Chair now recognizes the gentleman from Texas, Mr. Neugebauer, chairman of our Financial Institutions Subcommittee.

Mr. NEUGEBAUER. Thank you, Mr. Chairman.

Mr. Secretary, thank you for being here.

Twenty years ago this month, President Clinton announced the National Homeownership Strategy. And he said, "I want to say this one more time: Our homeownership strategy will not cost the taxpayers one extra cent. It will not require legislation. And it will not add more Federal programs to a growing Federal bureaucracy." I think we can all agree that vision didn't turn out that way.

If you recall, back in February you and I had a conversation about the fact that you were about to lower your guarantee fee by 50 basis points, and the fact that you were still not meeting the federally-mandated reserve ratio for the fund at FHA. And I think, back then, the number was .41 percent. The mandate is 2 percent.

I wondered if you could tell us today, Mr. Secretary, what is the current status?

Secretary CASTRO. Yes. Thank you very much, Representative, for the question.

I cannot give you that information because that won't be available until the next annual report. As you know, that is done by an independent actuary, and so we do not do that analysis. That analysis is done by a neutral third party. We expect to have that 2015 report in November of this year.

Mr. NEUGEBAUER. Mr. Secretary, I want to make sure I understand that. So you don't know until the end of the period how you are doing?

Mr. Secretary, you were the mayor of San Antonio. And I can imagine the director of finance, if you asked him, how are our sales tax receipts coming in line with our projected budget, and he says, I won't be able to tell you that for a year, would that be an appropriate answer?

Secretary CASTRO. What I would say is that you all can change that. That is set by Congress, not by me.

Mr. NEUGEBAUER. But, internally—

Secretary CASTRO. If you want to change it, go ahead and change it.

Mr. NEUGEBAUER. Internally, I would think that you would have people monitoring—

Secretary CASTRO. Let's be clear about that.

Mr. NEUGEBAUER. —the progress of the fund.

Secretary CASTRO. As Mr. Luetkemeyer said, we do put out a quarterly report, and Mr. Luetkemeyer, to his credit, asked my staff to go and review the quarterly report with him. We would be glad to do that with you.

However, to your question as to whether I have an update on that capital reserve ratio, the answer is no, because Congress has an independent actuary that does this once a year for us.

Mr. NEUGEBAUER. Let me ask you another question. Are the premium revenues that you projected to meet the standard—because I believe what you told me in February is that by the end of 2015, you would be at 2 percent. So you don't have any idea whether you are going to be at 2 percent at the end of the year?

Secretary CASTRO. Again, just to correct the record, what I said when I was here on February 11th was that we expected that in 2 years, within 2 years, that we would reach the 2 percent capital reserve. That is what I said in February.

Mr. NEUGEBAUER. I think the problem that a lot of us have is that you are running an organization that has a \$42 billion budget, has a trillion-dollar-plus contingent liability, and we don't have the ability to track progress other than on an annual basis? I don't know—

Secretary CASTRO. That is not true at all. In fact, we provided to Chairman Luetkemeyer our quarterly report. We do track several statistics. However, you asked specifically about that capital reserve ratio.

Mr. NEUGEBAUER. Then, let me ask about the revenues. Are the revenues on track to meet that goal?

Secretary CASTRO. The answer to that is that they are encouraging so far. Let me give you a precise example.

Mr. NEUGEBAUER. I don't want to know whether they are encouraging or not. I want to know, are they on track to—are you going to meet the 2 percent at the end of the year?

Secretary CASTRO. They are encouraging right now.

Mr. NEUGEBAUER. Yes. Well, "encouraging" is not the—

Secretary CASTRO. So I will give you an example of why I say that. Okay?

When you look at March of 2014 versus March of 2015, for instance, there were 8,000 more borrowers through FHA-insured loans. That is just a month-to-month comparison. We have seen, as the quarterly report indicated, a significant uptick in refinancing.

So you have to understand that this thing took effect on January 26th. With the limited early data that we have, we believe that we are on track. However, we will not get an official number on this, the assessment, until around the Thanksgiving timeframe when that independent actuary gives us the report.

Mr. NEUGEBAUER. I think the thing that is troubling is, a lot of my colleagues on the other side of the aisle talk about a safety net, and to me a safety net is something that is provided to keep you from failing or falling or hurting yourself. And so the safety net that we have today is made out of string, and I think you would agree that if I had a safety net, I would rather have one made out of rope. And when you have \$1 trillion of the taxpayers on the hook and you only have 0.41 percent equity, the taxpayers are at risk.

Secretary CASTRO. Yes. That is apples and oranges. You are conflating two things. I don't think that is the way it works.

Mr. NEUGEBAUER. I'm sorry, Mr. Secretary, how is that apples and oranges?

Secretary CASTRO. The capital reserve ratio is not a simple ratio of how much money we have to pay claims. We have more than enough to handle the claims, the losses, that we have in front of us.

Mr. NEUGEBAUER. It is the economic present value of your liability.

Ms. WATERS. Regular order, Mr. Chairman.

Chairman HENSARLING. The Chair can see the clock.

The Chair now recognizes the gentlelady from New York, Ms. Velazquez.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Mr. Secretary, this hearing could not come at a better time, as the House unfortunately just passed the Fiscal Year 2016 HUD spending bill, which, if enacted, will severely underfund virtually every HUD program and jeopardize the housing stability of vulnerable Americans.

The shortage of affordable rental housing is a huge problem in New York, and a new analysis released this week brought the severity of the problem home. Between 2002 and 2014, rents in New York City rose by 32 percent citywide, even after the effects of inflation were removed.

My question is, Mr. Secretary, what will happen to working families if we do not have public housing? For example, in New York City we have 615,000 people who live in public housing and Section 8. These are hard-working people, and if we don't provide those types of resources, where will they go?

I don't suffer from multiple personalities. I understand that if we want to tackle the issue of poverty, it takes investment; that if we want to tackle the issue of homelessness among veterans, it takes the role of the Federal Government.

And by the way, I am proud to report that in New York City, the number of homeless veterans in New York dropped by 40 percent last year and declined 75 percent since 2012. Why? Because of vouchers and homeless assistance grants and because the City is also pooling resources. That is what it takes.

And so we want to tackle the issue of poverty in our country, and then we ask what is it that HUD can show to demonstrate the ef-

fectiveness of the agency? It takes investment and the understanding that for the last 20 years there is one issue that has really impacted Americans. They are working harder. They are working two and three jobs. But there is one thing, and that is wage stagnation. While the 1 percent is doing extremely well, the rest, 99 percent, are working harder and getting less.

So, Mr. Secretary, if the THUD funding bill that passed the House is enacted, how will this impact HUD's efforts to address the affordable housing crisis?

Secretary CASTRO. If the THUD bill becomes law it will seriously injure, seriously damage our ability to meet the needs out there. As it is, as I mentioned earlier, we only serve one in four people right now who qualify for HUD services. And a couple of weeks ago, Chairman Luetkemeyer had at his subcommittee a group of individuals to discuss public-private partnerships, which I think is a very fruitful discussion that ought to be had.

It was very clear in that testimony, whether it was the nonprofit sector, public sector, or private sector, that said: If HUD doesn't do these things, who else is going to do them? There is no private market to serve people who are extremely-low-income, and those are the vast majority of the people that we serve.

And so whether it is traditional public housing or Section 8 vouchers or project-based rental assistance, we need to make an investment. If we don't, what it means is more people out on the street, more mothers with children who are homeless or doubling up, more veterans who don't have the chance to have a place to call home. Those are the human consequences of the budgetary decisions that are on the table.

Ms. VELAZQUEZ. So, Mr. Secretary, I would like to ask you about Section 3. I have been working on Section 3 for many, many years. When Secretary Donovan was there, I introduced legislation, and I am happy to see that some of the provisions that were contained in my legislation are being reflected in the rule that you are putting out. But if there is a tool that could empower residents in public housing, it is Section 3. Without the proper oversight and without the proper training and investment, it is not going to work.

Secretary CASTRO. Thank you for that.

Chairman HENSARLING. The time of the gentlelady has expired.

The Chair now recognizes the gentleman from Michigan, Mr. Huizenga, chairman of our Monetary Policy and Trade Subcommittee.

Mr. HUIZENGA. Secretary Castro, I have a different line of questioning, but something that my colleague from Missouri, Mr. Cleaver, had brought up about the short time versus long time for a lifetime myth that exists with people who are utilizing HUD and housing through you, he threw out a statistic of 5.4 years for families with teens. I don't know if that is accurate or where he got that. Are you familiar with that statistic at all?

Secretary CASTRO. Yes, that sounds about right, in the 5-year range. I think, and I guess Ranking Member Cleaver is not here right now, however, what he was probably referring to is for working-age individuals. Recall that for the majority of folks that we serve, these households who are elderly or disabled, our goal is not

to just get them in and out. So they do have a longer period of average stay. But that sounds correct.

Mr. HUIZENGA. I think that is completely different. But earlier, at the beginning, the chairman was asking you specifically about, and you couldn't answer, whether we are tracking people from one PHA, as they exit that, presumably within that 5-year timeframe, to what happens to them. Where do they go next? Do they go to another public housing authority? Do they maybe move to another State? What do they do? And you couldn't provide that matrix.

Secretary CASTRO. Well, no, I said that we will get the information we have on that. Do I believe right now that we are tracking that as well as we would like to? The answer to that is no.

Mr. HUIZENGA. Okay. It seems if we can dial it down to 5.4 years, you ought to be able to figure out how you are going to make sure that people are utilizing that service.

Shifting to what is more of my concern, how do we make sure that we have an opportunity economy that eliminates poverty and breaks that cycle that may exist?

I was a former licensed REALTOR®. I started my career in that. Some of my proudest moments that I was involved in weren't with my big sales. My first listing was a two-family house in Holland, Michigan, that was very transitional, a Hispanic family on top who shared a one-bedroom apartment—in fact, Luis and Alaya are still friends today—and helping them transition into buying their own place.

One that I talked about in this committee before is someone else who still remains a friend, Jill, whose husband had left the family, and she moved from a trailer park into her first home, and I was able to help explain to her kids why and how important that was. And literally sitting here 20 years later, I am getting emotional and choked up because that really is why you exist. You don't exist to just make sure that we are taking care of people temporarily. You exist to make sure that we are taking care of people long-term. And I don't mean getting into your system and staying in your system. What is the opportunity?

And I am afraid that as I am looking at this report, it seems that the solution typically has been to just simply throw more money at it. And it is not only about subsidizing the market, I would hope, with Section 8 or other things, it is how do we make sure that, as my colleague was starting to address, the people who are providing that, who are building it, have some assurance and have some understanding of what the ground rules are, what the guideposts are, so that they are not going to get sued, and they are not going to have these questions as they linger over there. That, to me, is vital.

In this remaining minute, on page 8 and page 9 of your testimony, I wanted to highlight a couple of things. One of them, start with this, the evidence-based Jobs-Plus program, "a proven model for increasing public housing residents' employment and earnings." I am curious, are you tracking that, and can you please share that, provide the matrix on that as well? Because I am curious, is this just Web-based, is this physical presence that people are having from HUD? Explain this, because it is \$100 million that you are putting into this. That can provide a whole lot of housing temporarily.

Secretary CASTRO. Thank you very much for that question, Representative. And let me say that I agree with you on the premise that for folks who are working age, and this is what the law requires, that if they are not working, that they be either doing community service or job training or pursuing an education.

So we want folks to basically be on a path to self-sufficiency. Jobs-Plus does track. We do have numbers, and we would be glad to provide them, on how we are doing. However, one of the things that I have said is that with this opportunity agenda, HUD needs to get better at measuring the outcomes there. So I would love to work with the committee on how we can do that.

Mr. HUIZENGA. Amen to that. I know my time has expired, but I hope that you will get much, much better at that and provide that to the committee.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair recognizes the gentleman from Texas, Mr. Hinojosa.

Mr. HINOJOSA. Thank you, Mr. Chairman, and thank you, Ranking Member Waters. I ask unanimous consent that my opening statement and my questions be made a part of the record. I am late for opening a meeting, and I must leave.

Chairman HENSARLING. Without objection, it is so ordered.

In that case, the Chair recognizes the gentleman from New York, Mr. Meeks, for 5 minutes.

Mr. MEEKS. Thank you, Ranking Member Waters, and Chairman Hensarling.

Mr. Secretary, first let me just identify myself as a proud product of public housing, and my whole family, all of whom are doing fairly well now. I don't know how well we would have been done or how my parents would have been able to do what they did without public housing.

And then, when I think about my friends, some who are now attorneys and doctors and engineers and pharmacists, all products of public housing. But had it not been for that assistance so that they could move forward, I don't know whether any of us would be in the positions that we are in.

So I personally know the critical need and the significant importance of public housing, giving individuals an opportunity, giving families an opportunity to come together and to be successful in life. And I can't think of a greater investment that we as a country can make, especially when we are talking about and oftentimes when we are campaigning, the average, everyday person, and the poor person, and making sure that they have a quality of life, there is nothing better than making sure they have a decent roof over their head so a child can get an education in a place where that they can grow and become productive members of society.

In New York, I am concerned, because when I look at the budgets and the funding packages that the Republican Party is putting forward, where I see that it fails to restore funds lost to sequestration and revokes critically needed investments in the National Housing Trust Fund and it shortchanges several rental assistance programs for very low-income households, I get concerned about what is going on in New York a little bit.

Because recently our Mayor de Blasio released a new ambitious plan to revamp New York City's Housing Authority and to bring

it back into a stable financial footing and to rebuild and expand and preserve public and affordable housing. And the plan is highly dependent on converting thousands of units to a project-based Section 8, and is therefore highly dependent on HUD subsidies through the Rental Assistance Demonstration program (RAD).

So as we move, and currently Section 8 accounts for roughly two-thirds of your budget, and as more public housing moves into Section 8 through RAD, I am just wondering how is HUD coping with such increased demands from communities across the country, and how can cities like my City of New York plan for the future with the uncertainty around increased Federal assistance to preserve affordable housing stocks?

Secretary CASTRO. You are correct that we do need a certain level of confidence in that investment. RAD has been one way that we have tried to stretch resources, by doing exactly what folks have suggested, that we engage with the private sector, in this case so that they can renovate those public housing units. Because the fact is, we have a \$26 billion backlog in renovation needs in public housing, and we lose 10,000 units every year to disrepair, and in New York you see that in spades.

So that is why we are requesting a couple of things in this budget, including \$50 million for that RAD program. We are also requesting additional resources in terms of salary and expenses because the cap was lifted in Fiscal Year 2015 to \$185,000. We want to ensure that we can meet that demand. By the way, we already have applications for RAD that are around \$180,000, so it is a successful effort at getting interest, public-private sector collaboration.

And on top of that, what we see with RAD is that for every \$1 of public money that we spend, we leverage \$19 of private investment. But we need to do it right, and we need to make sure that those resources are there that undergird it, which are public resources, that we treat tenants right, and that it still is fundamentally public housing, even though you have this public-private partnership.

Mr. MEEKS. And so I guess what my nervousness is, because I am not sure what these budgets are looking like and I am not sure that everybody is on the same priority level, so as you move forward, I am worried about the underpinning of the public sector continuing what it needs to match the private sector, because if we get into these scenarios and then we lose the subsidies to keep them affordable, what happens to public housing? So can you tell me?

Secretary CASTRO. I agree with you that if we are not careful, then the public sector won't even have the strength to engage the private sector so that we can fruitfully renovate or create new housing. That was a point that was made in the subcommittee hearing, that the private sector needs the public sector to do affordable housing.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Wisconsin, Mr. Duffy, chairman of our Oversight and Investigations Subcommittee.

Mr. DUFFY. Thank you, Mr. Chairman.

And thank you for being here, Secretary Castro.

I just want to make a note that homelessness doesn't just exist in urban America. It also exists in rural America, in places like my district, rural Wisconsin. For the last 2 years we have held a homelessness and hunger summit trying to bring in the stakeholders from across our rural community, trying to figure out how we can address this problem more effectively, trying to figure out where the bright spots are of what small agencies, what they do to more effectively tap into resources in their community, how they can more effectively tap into government resources.

And so it is a problem that we think we have to address, and my comments are in no way trying to undermine the problem of homelessness across the country. I would note, though, that I do hear a lot about the rules and regulations, especially for small providers in our community. And, listen, if you are a one- or two-person organization, it becomes incredibly difficult for them to navigate the rules and regulations.

But I want to move beyond that. You are asking for more money, a 9 percent increase, or that is in the President's budget. Why do you need more money when we have improved the homelessness in America? Why do you need more public housing money? Why do you need more Section 8 housing money when we have had improvements in the economy and in the space?

Secretary CASTRO. The fact is that, for instance, let's take our vouchers. Through sequestration, we lost 67,000 vouchers. What we see out there is that we are only able to serve one out of every four people who need us.

Mr. DUFFY. But have we had an improvement in the space, with those who are homeless?

Secretary CASTRO. On homelessness, we have seen an improvement over the last. And why was that?

Mr. DUFFY. But you are asking for more money, though.

Secretary CASTRO. And the reason for that was that we dedicated more resources to it. HUD-VASH vouchers. To the committee's credit, Congress' credit, and the President's leadership, the main reason that we have seen a reduction in veteran homelessness is because we have actually invested in ending veterans' homelessness.

Mr. DUFFY. I appreciate your comments on veterans, and that is a nice number.

Secretary CASTRO. Okay. Then, let's talk about folks who live in rural areas or tribal communities.

Mr. DUFFY. Let's talk about it as a whole then. What success have you had of getting people not just into the system of public housing and Section 8, but out of the system?

And it goes back to the questions that the chairman asked and Mr. Huizenga asked, that you come and ask for more money, but you can't sit there today and say, listen, you guys, this is what we are doing, we are bringing people in, they need help, we all want to help them.

Secretary CASTRO. That is not true. I gave you an example earlier.

Mr. DUFFY. No, no, hold on, let me finish. But here are the facts and the numbers of how we have moved people out of the space of public assistance and into self-sufficiency. But if you don't track

people, you don't know if the numbers that you give us are people who go from assistance to sustainability themselves or to another public housing authority. You can't actually give us the right numbers, and you are asking for more money.

Secretary CASTRO. I gave an example earlier. A good example of that is Jobs-Plus.

Mr. DUFFY. I don't want examples. I am looking at numbers.

Secretary CASTRO. A good example of what we have seen is that through our Jobs-Plus initiative—

Mr. DUFFY. Let's talk about Jobs-Plus. Is the 9 percent increase asked for by the President going to the programs that you say work, like Jobs-Plus?

Secretary CASTRO. What we are requesting is that we are going in Jobs-Plus—

Mr. DUFFY. Across-the-board.

Secretary CASTRO. —we are going from \$15 million to \$100 million. That is what the request is.

Mr. DUFFY. That is not my question. Mr. Secretary, hold on a second.

Secretary CASTRO. If your question is, is the only thing we are requesting Jobs-Plus? Of course not.

Mr. DUFFY. So if you have programs that work, Jobs-Plus—I am not arguing your stats on that—why aren't you saying, Congress, listen, let's talk about programs that work, that will take people off assistance and into sustainability?

Secretary CASTRO. That is what I am talking about.

Mr. DUFFY. No, it is not. You are giving me a small section. The funding that is asked for is funding across-the-board, not to be driven into Jobs-Plus, not to programs that actually move people to sustainability. It gets back to your original point. I think you judge success by how much money we spend. That is how you judge success.

Secretary CASTRO. No, I don't. No, that is not true. The other day I was in—

Mr. DUFFY. Tell me the number.

Secretary CASTRO. The other day I was—

Mr. DUFFY. Hold on. This is my time.

Secretary CASTRO. When I was in—

Mr. DUFFY. Tell me the number with regard to people—

Secretary CASTRO. —there was a group of veterans—

Chairman HENSARLING. Mr. Secretary, the time belongs to the gentleman from Wisconsin. Please add 10 seconds to the clock.

Mr. DUFFY. If that is not how you judge your success, tell me the percentage of people who go into Section 8 public housing and then actually move out into self-sustainability. What does that look like?

Secretary CASTRO. As I said earlier, we would love to get you the information we have on that.

Mr. DUFFY. You don't have that number. So you can't—

Secretary CASTRO. What I do know is that we have a waiting list of 189,000 folks in public housing.

Mr. DUFFY. My time. If you were judging success by getting people off assistance and into self-sustainability, you would be here today telling us those numbers. But you can't tell us because this

is not how you judge success in your agency. That is part of the problem.

Secretary CASTRO. Representative, I just did tell you some of that.

Mr. DUFFY. You didn't give a number, so you don't even know it.

Secretary CASTRO. I did.

Mr. DUFFY. What was the number?

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from California, Mr. Sherman.

Mr. SHERMAN. Mr. Secretary, I want to recognize with you that Section 8 and other housing programs are successful in every one of our districts, that a housing program has to chiefly be evaluated based on whether it provides housing. And getting people off the street and in housing is a good thing. Whether they then get a well-paying job is a little bit outside your Department.

And I look forward to working with the last gentleman to defeat fast track so that we can get the high-paying jobs that will lead not only to successful housing programs, but successful economic futures for those you benefit.

But I think it is wrong for us to say we are going to cut back on Section 8 until you give us perfect numbers and until you establish that providing housing means somebody gets a good-paying job too. I will give you time to comment.

Secretary CASTRO. What I said that one outcome is, an important outcome is that somebody has a roof over their head. That is what the Department of Housing is for; we are first and foremost about housing.

However, to the second question, do I believe that we should also make investments—and we are making some investments—that seek to get folks to a stronger track so that they can achieve the American dream? Of course I do. And should we look at the outcomes of that? Yes, we should, and I think we can work together on that. But to say that it doesn't count at all that somebody has a roof over their head is just ridiculous.

Mr. SHERMAN. Well said. And I now want to move to FHA and a couple of technical areas, where FHA has a rule or a policy that clashes with another Federal rule and hope that FHA moves in the direction of the other Federal rule.

The first example of this is with property subject to transfer fees. Now, 99 percent of transfer fees are terrible. I thank you at FHA for working to prohibit them. FHFA, which of course oversees Fannie Mae and Freddie Mac, has done a slightly more nuanced job. Instead of prohibiting all of them, they have only prohibited the 99 percent that are bad. The 1 percent that are helpful are those that benefit the property, that are key to the business plan of homeowners associations and fund homeowners associations by a reasonable amount when the property is transferred.

So I wonder whether you would look at a technical tweak to the FHA regulations and see whether the FHFA's very similar regulations, but a little bit more nuanced, might be better for both similar Federal programs?

Secretary CASTRO. Thank you very much for that question. Let me just very briefly say that at FHA our primary concern, of

course, is to ensure that responsible borrowers can access credit. We also want to continue to play that countercyclical role that FHA has historically played. And on top of that, we are interested, where it makes sense in policy that encourages neighborhood stability, for instance, and we are looking at matching FHFA on this issue that you brought up. And so we would love to follow up with you and your staff on that and give you an update on what we are up to.

Mr. SHERMAN. Good. It is similar agencies trying to carry out the same policy, and they ought to have identical or very close to identical rules. And in this one case, your sister agency has a more sophisticated rule.

Federal statute generally requires that you have to stop paying mortgage insurance once you have a 78 percent situation. You have a situation where borrowers have to keep paying FHA forever unless they refinance.

Now, if they had to pay forever, I would say: Well, maybe you need the money. But if you are not going to get the money, they are just going to refinance, then I would say that is a—I have been through some refinancings. It is a lot of paperwork. And then it would be easier for borrowers if they are trying to compare FHA insurance with private insurance, if you were offering the same product; that is to say, something that is cancelled at 78 percent. Will you take a look at that?

Secretary CASTRO. We are always, of course, looking at how we can be sensitive to the conditions out there. As you know, this life-of-loan issue came to pass during the last few years where there was a need to do everything that we could to ensure that we built up our reserves. And we want to do what is prudent. We are always willing to look at this issue.

Mr. SHERMAN. Thank you.

Chairman HENSARLING. The time of the gentleman has expired. The Chair now recognizes the gentleman from New York, Mr. King.

Mr. KING. Thank you, Mr. Chairman.

Good morning, Mr. Secretary. I regret that I was not here for your opening statement. I was actually across the hall. There was a hearing being held on the reauthorization of the 9/11 Health Care Act, so I was there. But I want to thank you for being here today.

Generally when I ask a question it is not written out, but this one I am going to read as it is written because there are a lot of specifics involved. It regards Westchester County in New York, which is not in my district, but it is pretty adjacent to it, and the implications of what is going on in Westchester could well impact my district. So I would like to ask the question. To the extent you can answer it today, fine. To the extent you have to get back to me in writing, I would greatly appreciate that.

I understand that in 2009, HUD reached an out-of-court settlement with Westchester County settling a 2006 civil lawsuit alleging that the county failed to consider race as an impediment to fair and affordable housing in filing its Analysis of Impediments document, which is filed with HUD when seeking CDBG block grants.

It is my understanding from talking to Westchester County officials, including the county executive, Mr. Astorino, and I would say at this stage I don't see this as being a partisan issue because the original settlement was with the Democratic county executive, it is now being implemented by a Republican county executive. So I don't see this as being a partisan issue.

But from talking to the county executive, he believes that the county is ahead of schedule in implementation of the settlement terms: 469 of the 750 required public housing units have been financed; 424 have building permits; and so far the county has spent \$37 million and leveraged another \$112 million from other sources, and at least \$51.6 million was agreed upon in the settlement terms. So, they have \$37 million and \$112 million. Yet, the county believes that HUD is not recognizing this progress.

In response to a HUD request, the county included in its Analysis of Impediments (AI) an examination of all of its 853 local zoning districts for evidence of exclusionary practices based on race and ethnicity and found none. Since then, it has made seven more such analyses, each time including consideration of more data as requested by HUD. The most recent AI was more than 700 pages, and each time the county has found no evidence of exclusionary practices, a conclusion that has been supported by an independent authority. HUD, however, has disagreed with the county and in 2011 began cutting off housing grants, which is, I believe, more than \$20 million to date.

Two questions: Can you say why HUD has summarily rejected each of the 8 Analyses of Impediments submitted by Westchester County in the past 6 years to fulfill the settlement requirements, and also all CDBG entitlement grantees, such as Westchester County, must certify that they are "affirmatively furthering fair housing," and in order to meet this obligation, grantees must conduct these analyses. What is the average length of an AI document and how often are they rejected, and what criteria does HUD use to determine whether or not an AI is acceptable?

And as I said, this case as it goes forward could have implications in my district and other districts in the region. So, any testimony you can give today will be appreciated.

Secretary CASTRO. I appreciate very much the opportunity to just address this briefly. I would love to get back to you and your staff with the specifics on Westchester.

Let me begin by saying that, of course, we take the issue of fair housing very seriously. Under the Fair Housing Act of 1968, it requires that the Secretary affirmatively further fair housing. As you know, Congressman, this issue of Westchester has been with us for a while and there has been a tremendous amount of work that HUD staff has done in conjunction with the local community to try and resolve these issues.

What I have told my staff is that, of course, there is a time when we are punitive, and this is one of those cases historically that developed and went into litigation, but we often seek what I call mission-driven flexibility to work with communities to meet the goals of the programs but also to ensure that they can undertake feasible actions to get into compliance.

Having said that, I would like to be able to get back with you on the specifics and an update on where we are at with regard to Westchester, because I do know that my staff has been working hard on that.

Mr. KING. And, again, I don't reside in Westchester, but I do know the officials up there, and they believe they are attempting to comply in good faith. They don't feel that HUD is acknowledging that. I am not getting in the middle of this, but again, I think it is important that we can set some parameters, because I do know there are other pending actions in the region which could have an impact on my district, and again, on all the people in the region.

And you are right, fair housing is essential. On the other hand, local governments have to try to comply. And again, this is very expensive, and again, it can be complicated. So whatever you can get back to me on it, I would truly appreciate it.

Thank you for your testimony this morning.

Chairman HENSARLING. The time of the gentleman has expired. At the request of the Secretary, the committee will stand in recess for 5 minutes.

[recess]

Chairman HENSARLING. The committee will come to order. The Chair now recognizes the gentleman from Massachusetts, Mr. Capuano.

Mr. CAPUANO. Thank you, Mr. Chairman.

Welcome back, Mr. Secretary.

Mr. Secretary, I know we have mentioned the FHA. I want to be clear, and if I am correct, as I understand it, not a single penny of general fund taxpayer dollars has been spent to help the FHA. Is that correct?

Secretary CASTRO. That is right.

Mr. CAPUANO. Okay. As I understand it—and by the way, happy birthday, 50 years old and all that—in those 50 years, as I read it, there have been 5 Republican Presidents serving 28 of those 50 years. Did any of those 5 Republican Presidents—Mr. Nixon, Mr. Ford, Mr. Reagan, Mr. Bush, and Mr. Bush—shut down HUD?

Secretary CASTRO. No, of course not.

Mr. CAPUANO. Did any of them admit defeat in HUD's mission?

Secretary CASTRO. No.

Mr. CAPUANO. But today we are hearing that HUD is a failed agency and we should probably close it down. I guess that would come to a surprise to Mr. Reagan and others.

Prior to HUD, were there any programs anywhere to help seniors find decent, affordable housing?

Secretary CASTRO. No. With the advent of HUD, that really led to the assistance of the elderly.

Mr. CAPUANO. So without HUD, there would be not less, but none; there would be no senior housing programs in this country whatsoever?

Secretary CASTRO. That is right. The answer is, if not HUD, then no one.

Mr. CAPUANO. Then no one.

I have heard a lot of criticism today, and I actually think I have heard some fair questions and fair comments. But of the criticism, I believe in giving elected officials what they want whenever pos-

sible, and I have heard several elected officials today publicly state that they think that HUD's programs are failing. So therefore, if they have a failing program, why would they want your money?

I actually think you are doing a pretty good job, and I would suggest that you give those officials exactly what they want, which is nothing, and send your money into my district, because I think you are doing a great job. And I am not saying that out of anything other than respect for the opinion of others. And I hope, as a former mayor, you would appreciate that approach.

I guess now I want to move on to something else, and I apologize, but our time is limited here, as you know. I do want to pick a little scab. The Distressed Asset Stabilization Program (DASP), my least favorite program that HUD participates in, not because I don't like the program, I know some of it is necessary, but because I don't like the focus. And I guess my concern is that basically we have been selling these houses in batches to the richest people in the world. And that is okay, not a problem, except for me, I thought part of HUD's mission was to actually create strong, sustainable, inclusive communities and quality, affordable homes for all.

With that mission, I always ask myself, who is in the best position to know what that means in a given community? So I looked up the last, I guess it is not the last one, but the November 2014 DASP sale, and on that there was some housing, some foreclosed housing, in a county I actually never heard of before, but maybe you are familiar with, Bexar County.

Secretary CASTRO. Sure. This is the county that includes San Antonio.

Mr. CAPUANO. That is what I read—42 properties in this batch averaging \$106,560 on their foreclosure loans, and it was sold to a company called AMIP Management, LLC. I looked them up, and they are a subsidiary of American Homes that has headquarters in Agoura Hills, California, which is kind of wedged in between Thousand Oaks and Simi Valley.

And I am just wondering, do you really think that somebody in a nice, beautiful building in Agoura Hills knows better what to do with 42 foreclosed properties in San Antonio than, say, maybe the mayor of San Antonio, or maybe a person named Walter Martinez, who runs the San Antonio Community Development Council (CDC) with headquarters on El Paso Ave, or somebody named Oscar Ramirez, who runs the Avenida Guadalupe Association with headquarters on Guadalupe Avenue?

Which do you think is in a better position to know what is probably in the best interest of the people of San Antonio, those people or somebody in Agoura Hills, California?

Secretary CASTRO. It is a point well taken, Congressman, and I want to thank you for your advocacy on this, and because of your advocacy, the advocacy of others, and also nonprofits who have made this very point, that part of our responsibility really is to understand the effect that these policies have on neighborhoods.

So we believe that DASP has been a powerful tool to help stave off foreclosure in some instances. We would love to get back with you on the changes we have made to it to improve it.

Mr. CAPUANO. Thank you.

Thank you, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired. On behalf of the Secretary's Texas ears and my Texas ears, and for the sake of the Members north of the Mason Dixon, it is pronounced "Bexar" County.

Mr. CAPUANO. We need to have an elocution lesson here. There is an "X" in there somewhere.

Chairman HENSARLING. Not for a Texan.

Mr. CAPUANO. And I am happy to give you elocution lessons.

Chairman HENSARLING. The Chair now recognizes the gentleman from California, Mr. Royce, chairman of the House Foreign Affairs Committee.

Mr. ROYCE. Thank you, Mr. Chairman.

Mr. Secretary, it is good to see you again. Let me ask you about a line of questioning here where I think you and I may be in concurrence.

Last week, we both had an opportunity to talk a little bit about a subject I publicly endorsed moving forward with: some building block housing finance reforms. These reforms would increase private sector participation in the secondary housing market and decrease taxpayer exposure to future losses and would over time limit the disruption in the market. And I wanted to get your take on this.

The things we discussed at that forum were an increase in private sector credit risk sharing by the GSEs, including a timeline to ramp up the offerings; the creation of a truly common securitization platform which allows for issuance of mortgage-backed securities other than the GSE; and the development of a common residential mortgage-backed security by Fannie Mae and Freddie Mac.

And I thought I would just give you the floor right now to discuss how this might bring private sector capital back into the market and how we might work together to achieve these goals as kind of a building block.

Secretary CASTRO. Congressman Royce, I of course appreciate your efforts on this issue of housing finance reform. Housing finance reform has been a long and winding road, I think it is fair to say. But the Administration is supportive of housing finance reform, and, in fact, I think there is agreement on some of these issues.

The President has made it very clear that he does have an interest, I think like all Americans do, in taking taxpayers off the hook in the event, God forbid, that we did experience the same kind of housing crisis that we just went through. I agree that we can find ways to introduce more private capital into the market. My hope is that in there we will find a way to ensure that people of modest means who are responsible are able to get access to credit.

And so with respect to proposed legislation, I think there are some common principles that are the foundation to build on, and we will look forward to working with you on that.

Mr. ROYCE. The question that I was going to try to drive to was the idea that GSEs increasing their risk-sharing activities in the form of volume of offerings and percentage of risk sharing, that would be a big step to bring private capital in. Certainly the common securitization platform, that idea you are familiar with, and

making that available for the private sector to come in as well, I think would be helpful, and I was trying to listen.

Secretary CASTRO. Yes. I am very willing to have conversations about that and build on legislation. We are hopeful. Of course, the ball is in Congress' court.

Mr. ROYCE. Let me then go to another question, Mr. Secretary, which concerns a headline I saw: "Banks cede FHA market share to thinly capitalized nonbanks." So we do have a situation where the FHA market share for large banks has recently been cut in half, from 61 percent to 33 percent, and I know that is a concern. Nonbanks have increased now. They were 24 percent. Now, several years later, they are 51 percent.

Is this troubling? And do you think legal uncertainty maybe is part of the problem in terms of getting the traditional lenders more involved here? What about the need for a greater certainty around the rep and warranty framework here? Have you been looking at that as a way of maybe bringing capital back in?

Secretary CASTRO. The answer to that is yes, we are looking at that. We believe it makes sense to take reasonable steps to create more business certainty for lenders. I know this is something that Director Watt at FHFA has worked on, and is working on now. That is something that we are working on with something we have called Blueprint for Access to Credit. We hear from lenders about the uncertainty that does exist regarding potential liability, and so we are working on that. And we look forward to being able to create, I hope, greater certainty that will help open up the credit box reasonably for responsible Americans to get access to credit.

Mr. ROYCE. One of the CEOs that I know was interviewed on this said, "If you want to stick with a program of putting back anytime, anywhere, whatever, that is fine, we are just not going to make these loans, and there are going to be a whole bunch of Americans who are underserved in the mortgage market." I think that is the part of this that is concerning. There have been some ideas put forward in terms of how to adjust this and handle it. But given the percentage of erosion here in market share, and especially the fact that it is thinly capitalized nonbanks that are coming in, I think it needs to be addressed.

So, thank you.

Thank you, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Massachusetts, Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman. And I want to thank Ranking Member Waters as well.

And thank you, Mr. Secretary, for helping the committee with its work. It is good to see you again.

Mr. Secretary, I am one of those Members of Congress that you referred to who grew up in public housing, like Mr. Meeks of New York. I grew up in the Old Colony housing project in South Boston, with five sisters. It has been described as one of the poorest predominantly White census tracts in the Nation. And we considered ourselves very, very fortunate to have a home, to have that home.

And listening to this debate here today about the question that was posed earlier—does HUD's affordable housing program

work?—I guess from listening to the debate, if your family has not struggled, no explanation is possible, but if you have actually lived in public housing, no explanation is necessary; you understand what that means.

We talked a little earlier, I have had an opportunity in the last couple of weeks, we cut a ribbon on one of my big veterans' housing projects that is coming up. We just broke ground, it is the New England Center for Homeless Veterans. And it is going to provide 38 new permanent supportive housing units for veterans, including a dedicated floor just for women veterans. We have a lot of them. It is going to renovate 59 existing supportive housing units for veterans. And then it is going to create 165 new units. So it has everything—if you have substance abuse problems, if you have psychiatric problems, we have the whole city together.

And I want to give credit to Mayor Walsh, Marty Walsh, who is part of this, and also Governor Baker, who is a Republican, but we worked together on this. There are at least a dozen different agencies, City, State, and Federal, that have combined on that project. And I have another project that is an old police station in my home neighborhood of South Boston where they are converting this old police station to single occupancy units for veterans.

So like most communities, we love our veterans, and we want to make sure that their service is remembered, is respected, and is rewarded. But I have to say that it has really been a collaboration of a bunch of different projects in trying to figure out all the different aspects of what HUD is doing on behalf of our veterans.

And I was wondering, you alluded to it a couple of times in earlier questions, but can you drill down and explain what the Obama Administration is doing, what HUD is doing on veterans' housing in this country today and what your most successful models have been in creating that housing?

Secretary CASTRO. I am glad to do that. This is a real American success story because President Obama in 2010 became the first President to say that we are not just going to reduce homelessness; we are going to end it, starting with veteran homelessness. And what we have seen since that time, from 2010 to 2013, is a 33 percent reduction in veteran homelessness through collaboration with Congress that funded HUD–VASH vouchers.

So you asked, what works, why are we here? Strong coordination between HUD, the VA, and providers out there on the ground to quickly get veterans into housing, and the adoption of smart policies like Housing First.

Housing First basically says we are not going to make our veterans jump through hoops, stay a certain number of nights in a shelter or transitional living; we are going to get them into permanent housing right away. Because the research is compelling that if you get someone into permanent housing with supportive services, that is a real stabilizing influence on their lives. So they can address then if there is some other issue in their life, perhaps if there is an addiction issue or there is a mental health issue or other issues. Having that housing is the key to being able to stabilize and address those issues.

And what we are seeing now is communities like New Orleans, which announced about a month-and-a-half ago that they have ef-

fectively eliminated veteran homelessness. I joined Congressman Green the other day in Houston. Houston has put in place the system to get to functional zero. So this is a real success story that we need to continue to support.

Mr. LYNCH. That is great.

In closing, I only have 10 seconds left, I just want to say that we have 2.5 million sons and daughters of America who have served since the first Gulf War, so this is something we are really going to have to focus on. A lot of them have done multiple tours of duty. So obviously, they need some help. Thank you.

I yield back, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired. The Chair now recognizes the gentleman from Pennsylvania, Mr. Fitzpatrick, chairman of our Terrorism Financing Task Force.

Mr. FITZPATRICK. Thank you, Mr. Chairman.

And thank you, Mr. Secretary, for the time spent with the committee here today.

I just want to stay on this issue of veteran housing and homelessness among veterans for a moment. You said in your opening statement that you have reduced homelessness among veterans by 33 percent, and that is not an insignificant number. And I think together we should celebrate that a little bit, recognizing as well that there is still a lot of work to be done, because that means of that subset population of veterans in this country, who have served this country, 67 percent of them are still without homes.

And you mentioned that President Obama has made this commitment to end veterans' homelessness. One veteran who is homeless is one too many.

I remember in November of 2009—I was a private citizen back then—in my home in Levittown, Bucks County, Pennsylvania, watching the news, and it was being reported that General Shinseki, who was then the Secretary of the VA, had articulated this commitment. And he actually put a timeframe on it, he said that in 5 years—this was November 2009—the goal was to end veteran homelessness in the United States.

And my thought at that point in time was that was a pretty aggressive goal, and I love aggressive goals, but I had some concerns about how we were going to get there as a Nation. And in my community—Levittown is a town that was built for veterans returning from World War II and the Korea-era veterans, one of whom is my father—many never would have had that opportunity to own a home had it not been for the VA and for that commitment. But tucked between the City of Philadelphia and the City of Trenton, New Jersey, as it is, housing prices skyrocketed. It was built in the shadow of a steel mill. And so many of that population found themselves over time to be sort of what is described as house-rich and cash-poor. And so, housing prices have gone through the roof. So in addressing this issue in my community, housing costs are very expensive.

And then my second concern is that homelessness is but a symptom, I believe, of other problems like substance abuse, and behavioral health issues such as PTSD and TBI, as these veterans are coming back.

There is a community right next to my hometown called Bensalem. This gets to the issue of bringing in private sector solutions. They proposed a 60-unit-or-so veteran housing project. The mayor of Bensalem, Joe DiGirolamo, has committed to donate the land. There are private developers involved. And there is an opportunity for us in our community to work with HUD so that you could be the last dollar into the project rather than the first dollar and let the private sector lead. So I just would like the opportunity to work with you and your Under Secretaries on that.

But I want to get to another Bucks County issue, because I think this is an issue in housing authorities that other congressional districts and Members of Congress are dealing with, and this has to do with a recapture of sweeping of accounts that occurred a couple of years ago, probably before you were appointed Secretary. Housing authorities across the country received a letter where Washington wanted to recapture or reclaim reserves in their accounts back to Washington to redistribute for other programs.

And the Bucks County Housing Authority, of which I am very proud, and which does a good job, which manages its housing well, and which had built up significant reserves and uses those reserves to build new projects to get individuals in the projects on the road to self-sufficiency, received this letter, and they were going to lose millions of dollars that they were prepared to reinvest in the community.

The housing authority just to the south of us, the City of Philadelphia, is well known for the problems that they had. They really had no reserves, they had mismanaged their authority, they settled lawsuits unrelated to housing, and paid millions and millions in legal fees.

And so the message that was sent by HUD was that if you are a well-run housing authority and you have built up cash reserves getting prepared to reinvest in your community, you will be penalized, and the mismanaged housing authorities in this country were really not penalized in that case because they were going to get the dollars redistributed.

I was just wondering if you could comment on what message you think that sends to the housing authorities in many of our congressional districts that are working hard, trying to do a good job in managing and reinvesting in their community so we can get to ending things like veterans' homelessness in this country. What message does that send?

Secretary CASTRO. On the first issue, I look forward to working with you on the issue of veteran homelessness.

On the second issue, we want our public housing authorities to succeed. And so you are right this does predate me a little bit. However, it was the subject, I believe, of an IG audit, and that money is being held by HUD, but will belong, does belong to the PHAs. We want them to have the resources they need to be successful, and we will look forward to working with you and others—

Mr. FITZPATRICK. I appreciate it, but the PHAs could have reinvested in the communities which were well-managed housing authorities. So, I would just ask you to consider that.

Thank you, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Texas, Mr. Green, ranking member of our Oversight and Investigations Subcommittee.

Mr. GREEN. Thank you, Mr. Chairman.

Mr. Chairman, as I have sat here this morning, I have literally had tears well in my eyes as I have heard some of what has been said regarding people who are in need of help. And, Mr. Chairman, I want the record to reflect that "I," personal pronoun, will not sit silently by while the tools that are needed to fight invidious discrimination and help those who are in desperate need of assistance are eliminated.

These tools have been hard won and hard fought for. We cannot allow the evisceration of the Fair Housing Initiative Program, the decimation of the Housing Trust Fund, and we cannot allow disparate impact to be eliminated. These tools have been recognized by courts, and they have made a difference.

And I applaud you for standing up and standing your ground this morning. Somebody has to take a stand. I applaud you and all of my colleagues who are doing so.

Mr. Chairman, Mr. Secretary more specifically, under disparate impact, statistical analysis alone will not bring a victory to the plaintiff. The plaintiff has a further obligation to go on and show that there is a less discriminatory alternative, and absent that, the plaintiff will not prevail.

Disparate impact is not a theory. It is a standard that 11 circuit courts have approved. And it bears a methodology by which one who is accused improperly can defend and win.

The Fair Housing Initiative Program is the most efficacious way that we know of to present empirical evidence of invidious discrimination. It has proven to be the best way. If there is another way, I defy someone to show me, other than a person just confessing that I am a person who discriminates, which rarely happens, which is why you have the disparate impact standard, because people don't confess. They have facially neutral policies, but in application it is invidious discrimination. And we cannot allow what we have fought hard for over the decades to just simply evaporate because some people don't understand.

I know what invidious discrimination is like. I have been to colored water fountains. I have had to sit in the back of the bus. I have had to sit in the balcony of the movies. So I know what I am talking about. I know what it smells like. I have gone to those filthy fountains. I know what it looks like. I have had the Klan protest because of my protestations.

So I am going to make a stand, and I want to make it very known that we cannot allow poor people to go without advocacy in the Congress of the United States of America.

Now, who is helped by the Federal rental assistance program? The elderly with children, the elderly themselves, the disabled with children, disabled adults. More than 50 percent of the people on Federal assistance are disabled, elderly, and children. Are we saying that America no longer wants to help the disabled, the elderly, and the children? Have we gotten to a point now where we have to cut through the bones all the way to the elderly, all the way to

the disabled? Is this the America that we have fought hard to create?

I stand with you, and I promise you, especially those who are listening who don't have the advocacy that you need in Congress, that there are some among us who will not sit silently by. We will not acquiesce. We will not give our consent. We will fight.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Virginia, Mr. Hurt.

Mr. HURT. Thank you, Mr. Chairman.

And thank you, Secretary Castro, for being here.

I am interested to hear some of the comments that we have heard from our colleagues on the other side of the aisle, the accusations that there are people on our side who want to shut down and end HUD, folks who believe that there is anything but full support for the Fair Housing Act.

And so it interests me to hear that, because I don't think that is what I have heard, and I don't think that anybody, certainly that I represent in Virginia's Fifth District, a rural district, believes that. I think the people that I represent believe that there should be a safety net and that HUD plays a very important role in providing that.

I think that we also recognize, and the people that I represent recognize, that we need to have Federal programs that work, that are efficient. I know that you believe that as well. We need them to be efficient, not only to serve those who need the assistance, but we also need to serve those who pay the bills, and that is the taxpayer.

So that is the perspective I bring to this. I am concerned about folks that I represent who live in rural Virginia. And I guess one of the things that I would like to ask you about relates to the role of HUD and its housing programs and housing assistance as it relates to the Rural Housing Service with the USDA.

I noted in your testimony, and I think that we all know, that in 1965 when HUD was created, it was really primarily geared, and maybe it is safe to say continues to be primarily geared, towards urban areas. Would you agree that is true, and how would you say that has changed in the last 50 years?

Secretary CASTRO. I would say that, certainly, we do a lot of work in cities of significant size. However, you could just as easily say that we are the housing and community development department, because we do a lot of work in rural areas and tribal communities. So by no means are the investments that we make limited to our urban areas.

Mr. HURT. With that said, there was a GAO report in 2012 which confirmed that, and said that there is indeed a tremendous amount of work that HUD does in rural areas.

And I guess my question is, if you are interested in trying to make sure that we are most effectively using the tax dollars and the leverage of the Federal Government to provide the most for the—most effectively, I guess my question is, are there opportunities where we can see reform and consolidation between the Rural Housing Service at the USDA and HUD programs?

Secretary CASTRO. We are always willing to talk about the potential for efficiencies.

I know that this question about potential consolidation between FHA and the Rural Housing Service has been discussed recently, and this is not the first time that it has been discussed. Just one note of caution there. These are two programs that are distinct. They have different underwriting approaches, and other standards that are different.

I would say that while HUD certainly does a robust amount of work in rural communities, there is no question that the USDA has much greater reach in our rural communities than HUD does.

Mr. HURT. So how can you say that there is not a duplication of effort and—

Secretary CASTRO. I think they are complementary. As I said, they do have different—RHS and FHA do have different approaches on underwriting and other things. We would love to get you and your staff a follow-up on that analysis.

All of that is to say that we are willing to explore what is possible, but I think at the end of the day, this conversation should be had as part of a larger conversation about housing finance reform.

Mr. HURT. But Mr. Secretary, our Housing and Insurance Subcommittee held a hearing on this in May. The Director, Mr. Hernandez, did not seem to be very open to consolidation at all.

And I guess my question is, based on the 2014 agreement or organizational charter for the Joint Federal Housing Agencies Charter, which I assume you are familiar with, what has been done? Have you met with anybody at the USDA or with Mr. Hernandez to figure out how we can consolidate these efforts between the USDA, HUD's efforts, and the VA's efforts?

Secretary CASTRO. Yes, it is a great question. I know that my staff has had conversations in the past with the Rural Housing Service. Of course, we can get you the details of those conversations and—

Mr. HURT. I would like to see them, because this is something that has been an issue since 2011, when the President started out on this course. So I would like to have some feedback.

Secretary CASTRO. Great.

Mr. HURT. Thank you very much, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Missouri, Mr. Clay, ranking member of our Financial Institutions Subcommittee.

Mr. CLAY. Thank you, Mr. Chairman. And thank you for conducting this hearing and inviting Secretary Castro back.

Welcome, Secretary Castro. And before I ask any questions, let me just personally thank you for your visits that you have made to St. Louis in May, to the State of Missouri. We hosted you a couple of weeks ago in Ferguson, Missouri, and I appreciate the attention that you have given that community, especially with our newly minted Promise Zone designation.

Today, it is an unfortunate reality that a child's ZIP Code has huge implications for life outcomes, including access to quality education, health care, and transportation.

HUD is currently working to finalize a proposed rule regarding the Fair Housing Act's requirement that all recipients of Federal housing funds take steps to affirmatively further fair housing. Can you explain how this rule will help ensure greater equality for our children in the future?

Secretary CASTRO. I would be glad to.

This is really a piece of unfinished business from the 1968 Fair Housing Act. The Fair Housing Act requires that the Secretary take steps to affirmatively further fair housing, and that our grantees affirmatively further fair housing. The challenge has been that the Federal Government has never provided precise guidance, sufficient precise guidance to communities on how they ought to do that. We also, historically, have not really given them the tools to do that.

So we are closing in on a rule, a new affirmatively furthering fair housing rule. Part of that is an Assessment of Fair Housing Tool that they will be able to use to understand what the fair housing challenges in those communities are. And I can tell you, as a former mayor, a former local elected official, and former council member, I wish that I had had that kind of tool when I was on the city council or as mayor of San Antonio because, as a policymaker, it would have helped to understand what more we could do.

They will file an assessment of fair housing with their consolidated plans every 5 years.

And we are looking forward to their rolling this out. This is still in the rulemaking process, so I won't go into the specifics of it, but we are excited about the possibility of this improving the fair housing landscape in the United States.

Mr. CLAY. Thank you for that response, and for your efforts in that area.

Studies show that Federal rental assistance helps families stay out of poverty, achieve stability, and ultimately leads to better life outcomes, particularly for children. Can you elaborate on the positive impacts that HUD's rental assistance programs have on our most vulnerable households across the country?

Secretary CASTRO. It is tremendous. The impact that we have provides stability for young people. It provides comfort and dignity, as was mentioned, to the 56 percent of households that are headed by someone who is elderly or disabled. It gives individuals who are working age the chance to get on a stronger path to prosperity. In fact, 43 percent of our working-age adults in HUD-assisted housing do, in fact, work.

So the rental assistance that we give is, in and of itself, successful in putting a roof over folks' head, giving them stability, and putting them on a path to the kind of prosperity that they want to work for.

Mr. CLAY. And how does the Brooke Rule that caps tenants' rent at 30 percent of income help families maintain housing affordability while still having enough room in their budgets for other basic necessities?

Secretary CASTRO. What that rule ensures is that—of course, they have a responsibility to pay 30 percent of their income in rent so they have skin in the game, they are putting something forward.

At the same time, it does shield them, to some extent, from increases in rents.

What we see out there is that the rents are going through the roof in many communities, and this is impacting everybody. The fact is that so many households today are paying 50 percent or more of their income in rent. As I mentioned earlier, 7.7 million low-income households who don't receive any government assistance are paying at least 50 percent of their income in rent.

Mr. CLAY. Thank you for your responses.

I yield back.

Chairman HENSARLING. The time of the gentleman has expired. The Chair now recognizes the gentleman from Ohio, Mr. Stivers.

Mr. STIVERS. Thank you, Mr. Chairman.

I am glad you are here, Mr. Secretary. And thanks for your call last week offering to work with me on a lot of issues for which we share a passion.

I want to read from HUD's mission statement and then ask you about four areas really quickly. And this is a summary of your mission statement. It talks about how you want to work to strengthen the housing market, you want to utilize housing as a platform to improve the quality of life, to build inclusive and sustainable communities free from discrimination, and to transform the way HUD does business.

That is my summary of your mission, so I hope you believe that is an accurate summary, but it is excerpts from your mission.

Secretary CASTRO. Sure.

Mr. STIVERS. And I would like to talk to you about four areas: first, Moving to Work, which you have already talked a little bit about; second, a "homeless youth" definition, which you and I have talked about individually; third, housing finance, especially involving condominium rules; and fourth, the Fair Housing Initiative, if we could.

I would like to start with Moving to Work. It is, frankly, an easy one. It is a bipartisan issue. We all care about it. I believe it is a flexible and holistic program that does indeed use housing to build people's quality of life and transform lives.

So I guess I just want to get you on the record as saying you are going to work with us on this bipartisan bill that hopefully will expand the program and allow it to be used to help a holistic program that actually looks not just at the housing needs but the total needs of the residents and makes it a little more flexible for the agencies administering it.

Secretary CASTRO. We absolutely are.

Mr. STIVERS. Okay.

Secretary CASTRO. We are looking to do what we can to ensure that we—

Mr. STIVERS. I will take "yes" as an answer.

Secretary CASTRO. —have a strong MTW. And—

Mr. STIVERS. Great. Perfect.

Secretary CASTRO. —of course, our budget proposes 15 more.

Mr. STIVERS. Great. Thank you.

Second, on the homeless youth, you may be aware that the 2014 Annual Homeless Assessment Report to Congress actually said that homelessness among families declined by 8 percent between

2007 and 2014, yet the numbers reported through our Department of Education said that they went up 85 percent since the 2007 school year.

So that is a big disparity, and it really has to do with the fact that the HUD definition leaves out homeless children. And I guess my question is—and I don't want this to be a loaded question, but it kind of is—how are we going to solve the problem of homeless youth if we don't count them correctly?

Secretary CASTRO. I believe that we are counting them, and I believe—first of all, I look forward to working with you. We had a good conversation about this issue.

Mr. STIVERS. Yes.

Secretary CASTRO. As you know, we have some concerns about this legislation. One of those concerns is that it injures HUD's—in fact, may take away entirely HUD's flexibility to prioritize or emphasize—

Mr. STIVERS. And we want to work with you to make sure you can emphasize—the whole point is you have to count people before you can help people. If you don't know they are homeless—and so the HUD definition, excluding whole categories of homeless folks who are under 18, I just want to work with you—

Secretary CASTRO. Although I would say—

Mr. STIVERS. —and give you the flexibility, but it is really important that we count them, and your definition excludes them.

Secretary CASTRO. I would say there is more overlap than has been commonly given credit for. But let's work together on it.

Mr. STIVERS. And there is some disparity in the report. So I just would love to work with you to help solve that, because we can't help those people until we count them. They count, in my opinion, and I want you to help count them. So I appreciate your willingness to work on that.

Third, with regard to condominiums, you may know that the process with regard to FHA funding for condominiums really is complicated. And if FHA would simply move to risk-based pricing for condominiums only—I am not asking you to do it everywhere.

You have had the ability to do risk-based pricing since before I got to Congress. Clearly, condominiums have a higher risk than single-family homes. I will stipulate that. If you would move to that model, you could move away from a model that excludes so many condos. In fact, only about between 10 to 20 percent of condos are eligible for FHA financing.

We have to fix that, because it is an affordable way for some people to get housing. It is a big way that a lot of urban people get housing. And to exclude FHA from them is a real travesty. I would love to work with you on that, too.

And I do want to quickly get to the Fair Housing Initiative, if we can. Did you, by any chance, since you have been at HUD—I know that you came long after it happened, but did you happen to look at your IG's report that was issued in 2013? Have you had a chance to see this?

Secretary CASTRO. Yes. I am familiar with this report. I think you are—

Mr. STIVERS. I appreciate it.

Secretary CASTRO. —talking about this one that I brought with me.

Mr. STIVERS. Great. Have you implemented the recommendations?

Secretary CASTRO. We have implemented those recommendations. And we have issued a directive emphasizing the need for on-site monitoring. And our Office of Fair Housing and Equal Opportunity (FHEO) has implemented a tracking system, as well. So—

Mr. STIVERS. That is great.

And I know I am out of time, but, really quickly, can you also tell us, have you updated your conflict-of-interest standards? Because they are really low, and they don't include having board members who actually compete against the folks who are subjected to these lawsuits.

Secretary CASTRO. I look forward to following up with you.

Mr. STIVERS. Let's talk about it. I'm sorry. I am out of time.

Chairman HENSARLING. The gentleman is correct; he is out of time.

The Chair now recognizes the gentleman from North Carolina, Mr. Pittenger.

Mr. PITTENGER. Thank you, Mr. Chairman.

Mr. Secretary, it is good to be with you.

Mr. Secretary, I am a businessman. I served in the North Carolina Senate. I led an effort for efficiencies and restructuring our government and looking for abuse, looking for fraud, looking for waste. I worked with a Democrat legislature, and came up with a billion-and-a-half dollars of savings. None of those amounts were contested by anyone. I worked with the speaker addressing what we could do to consolidate our health and human services department. I worked on Medicaid fraud, which was pervasive throughout our government and, as such, around the country, about 20 percent of it.

I think the pushback that maybe you sense from this side of the aisle today is wanting a recognition that there is a concern for some abuse.

You referenced several times that the individuals that you serve come from the very poor or the disabled. Disability insurance has increased in the last decade from \$88 billion to \$145 billion. That is a lot of money. That is a lot of people. It seems that a lot of folks have been able to gain access to that.

I have worked with our secretary of health and human services in North Carolina on addressing food stamps. There are very few eligibility requirements. I have been on the phone with our majority leader and our staff trying to create eligibility requirements and incentives to address it.

I think the overall concern is the abuse of the system and what is being done. You have made a clear, compelling statement of a great American success story and addressing the needs of veterans and their homelessness. I think what we are looking for is that great American success story in creating accountability inside the system and looking for real metrics, looking for what you are doing to make sure that only those who really need assistance are getting it.

If you have 56 percent of your folks that you are servicing from—and a good portion of those from the disabled, and you have enormous access to disability, where does that fall in line, in terms of people being able to access not just disability but then be able to get Federal housing?

So all of this is of real concern to all of us who want a fiscally accountable government. I really reject the statements that were made to imply that there is some type of racial concern here. I have been involved in Federal housing in my community for 25 years. You can talk to civic leaders, pastors, African-American pastors, with whom I have worked with very closely. I understand the need, and I am responsive to that need.

But, at the same time, I represent individuals who want a fiscally accountable government. And we don't see a demonstrated effort in so many ways of how that is being manifest.

And I would really appreciate your response to those concerns. Secretary CASTRO. I appreciate the question and the concern.

Early on in my tenure, we set out a vision for HUD. And one important part of that vision was to create a more accountable and transparent Department.

So one of the first things I did was that I co-authored a letter, a joint letter with our IG that went out to all of our employees, telling them that folks ought to cooperate with IG investigations and reviews. We have gotten our departmental enforcement center to work closely with our IG. We work with our IG to implement the recommendations on audits and reports so that we improve performance out there.

We are looking at ways that we can improve monitoring of our grantees. One challenge, for instance, is that we have over 8,000 grantees—

Mr. PITTENGER. Mr. Secretary, if you don't mind, could I interrupt you? I don't have much time left.

Would you agree with me that there is abuse in the system?

Secretary CASTRO. That abuse happens in the system sometimes?

Mr. PITTENGER. Yes.

Secretary CASTRO. I agree with you on that.

Mr. PITTENGER. Good. I think that is what we want, is a—if you want to come back to us with real, measured results, not what you have given to your staff and what to look for, but measured results on what you have done to bring accountability inside your system, that would really demonstrate to us that we are putting our tax dollars where they really belong.

We care deeply about those in the safety net who need our help. We care deeply, though, as well, about the American taxpayer and how they are being exploited time and again.

Secretary CASTRO. I share that concern, and we would love to follow up with you.

Mr. PITTENGER. Thank you very much.

Chairman HENSARLING. The time of the gentleman—

Mr. PITTENGER. I yield back.

Chairman HENSARLING. —has expired.

The Chair now recognizes the gentleman from Arizona, Mr. Schweikert.

Mr. SCHWEIKERT. Thank you, Mr. Chairman.

Mr. Secretary, a couple of quick questions just to sort of build the box.

What do you think the thing is you do or the Department does best, where you do it efficiently, you actually affect people's lives, and the cost, the dollar outcome, as you measure it, is something you are proud of?

Secretary CASTRO. There are several things that fit that category.

Mr. SCHWEIKERT. No. Just—

Secretary CASTRO. I think it is fair to say the thing that many of us are proudest of is this progress that we have made working with the VA and others on veteran homelessness.

Mr. SCHWEIKERT. Okay. So your veterans' homeless program.

Secretary CASTRO. Yes.

Mr. SCHWEIKERT. What is the thing that most concerns you, where the dollar per life affected or helped and changed is unacceptable to you? What is that?

Secretary CASTRO. What is your question?

Mr. SCHWEIKERT. Same thing, it is just the opposite, the mirror image of the first question. What in the dozens and dozens and dozens of programs and initiatives you are managing—and, look, you have inherited much of this—of the dollars spent, it is unacceptable to you, the quality, the outcome in affecting and helping people's lives?

Secretary CASTRO. I think it is fair to say that every day I read the clippings from around the country, and I see one of the grantees that is not spending money the way they ought to—

Mr. SCHWEIKERT. No, no. I beg of you, I don't want to go the anecdotal direction. I almost want this to be sort of your math-brain side saying, as the manager of a multi-billion-dollar agency, what program is unacceptable to you that the dollars being spent on the numbers of lives you are actually helping?

Secretary CASTRO. I don't believe that there is a program that HUD has—

Mr. SCHWEIKERT. So, no program—

Secretary CASTRO. I guess what you are calling is basically a useless program.

Mr. SCHWEIKERT. No, no, no. On the contrary. We all—

Secretary CASTRO. I disagree with that.

Mr. SCHWEIKERT. We all have those that, either the way they are designed, the efficiencies—I am sure you ran into that as mayor, by—

Secretary CASTRO. Is your question what program we need to improve in terms of its efficiency?

Mr. SCHWEIKERT. Or restructure. Because you just told me you are very proud of your homeless veterans' program. So, obviously, you came up with a methodology and mechanics there that you thought was effective per dollar.

Secretary CASTRO. Yes.

Mr. SCHWEIKERT. But on the flip side, you can't tell me anything—

Secretary CASTRO. No, no, no.

Mr. SCHWEIKERT. —out of all the programs—

Secretary CASTRO. If your question is what program or programs can we improve the efficiency on, what programs concern me about the efficiency on—

Mr. SCHWEIKERT. If you had to target right now where it was time for a technology revolution, cost revolution, delivery revolution in what you do, to use that money to affect people's lives, what is that program that it is time to have that management revolution that you—

Secretary CASTRO. Oh, there are many. I will give you an example.

Mr. SCHWEIKERT. Give me the number one.

Secretary CASTRO. One of them that I think we can make more progress on is CDBG. I am told by my folks who administer this that a lot of the work on CDBG is centered around essentially just routine paperwork. And we need—

Mr. SCHWEIKERT. So what is the technology you can bring to that to bring that revolution about so the dollars per lives affected is acceptable to you?

Secretary CASTRO. This is why we are requesting IT upgrades, so that we can improve our IT system to enhance monitoring and cut down on the amount of time that our people have to spend doing paperwork—

Mr. SCHWEIKERT. So those IT upgrades—

Secretary CASTRO. —so they can be more effective.

Mr. SCHWEIKERT. —should provide the efficiencies that ultimately will cover those costs? And that is a program where you are going to—

Secretary CASTRO. That is one example.

Mr. SCHWEIKERT. —be able to help more people's lives and accomplish it through the efficiencies and pay for it through those efficiencies?

Secretary CASTRO. Yes, but your characterization, I think, is off about that it is one program. It is not one program.

Mr. SCHWEIKERT. You do initiatives at the program level.

Secretary CASTRO. Sure. Yes, there is no question, Congressman, there are efficiencies that we have yet to achieve that we need to achieve. I think my message is it is going to take us improving the systems. That often takes an investment. And we need that investment from you.

Mr. SCHWEIKERT. You actually have a misnomer there, because if you take a look at the rest of the world, particularly in the private sector, the adoption of technologies and efficiencies is supposed to save money and allow you to help more—

Secretary CASTRO. Congressman—

Mr. SCHWEIKERT. No. Let me finish.

Secretary CASTRO. —if you would just invest—

Mr. SCHWEIKERT. Let—

Secretary CASTRO. —as much in my program—

Mr. SCHWEIKERT. Mr. Secretary—

Secretary CASTRO. —as you did in this room—

Mr. SCHWEIKERT. Mr. Secretary, let me finish.

Secretary CASTRO. —with this carpet with gold insignia—

Mr. SCHWEIKERT. Mr. Secretary—

Secretary CASTRO. —and this kind of—

Mr. SCHWEIKERT. Mr. Secretary, let me—
Secretary CASTRO. —wonderful Taj Mahal—

Mr. SCHWEIKERT. Come on.

Secretary CASTRO. —I think that—

Mr. SCHWEIKERT. Hey.

Secretary CASTRO. —we could make the kind of improvements that we need to make.

Chairman HENSARLING. Mr. Secretary, the time belongs—

Mr. SCHWEIKERT. You have shocked—

Chairman HENSARLING. —to the gentleman from Arizona.

Mr. SCHWEIKERT. —me with that rudeness. I am—

Secretary CASTRO. That is the fact.

Mr. SCHWEIKERT. Shall we try again, Mr. Secretary? Come on. You are better than this. You are much better than this. And your brother is one of my favorite people here.

So, as we try to help you, policy-wise, to find those efficiencies where you believe you can have the most impact—through your testimony and statement, you keep repeating over and over investment, investment, investment. But then, in the same breath, you tell me that these technology dollars are going to provide you efficiencies. Why aren't you also telling us these efficiencies are going to pay for these technology investments?

And, with that, Mr. Chairman, I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Pennsylvania, Mr. Rothfus.

Mr. ROTHFUS. Thank you, Mr. Chairman.

Welcome, Mr. Secretary, and thank you for joining us today.

I would like to talk a little bit about HUD's Continuum of Care Program, which I understand is set up to engage local communities in providing transitional housing and services to individuals and families.

Your staff has been talking with my office and a constituent provider in my district about some challenges with HUD regulations they have run into as a single-sex provider. This provider does great work in the north hills of Pittsburgh helping women with children avoid homelessness. Most of the women there have been in poverty. Many are domestic violence survivors, and many have experienced mental health or substance abuse issues. Despite that, the outcomes achieved have been tremendous, with more than 80 percent of clients increasing income and education levels and finding permanent housing.

Each of these figures exceed HUD requirements. However, the regulations as they currently stand prevent this provider from continuing to serve females with children. And I can't imagine that they are the only ones experiencing this issue.

In thinking through some of these issues, I question whether it makes sense for every program to be all things for all people. This provider serves a unique population that seems like a key tenet of the program is, again, to empower folks on the ground to tailor programs to meet the specific needs of their community. It can't be one-size-fits-all.

Instead, could services under the Continuum of Care Program for different genders be provided at different locations if that is what the community deems to be the most appropriate?

Secretary CASTRO. Yes. Thank you for the question, Congressman. You know, of course, that I am not familiar with this particular case. I am glad that my staff has been working with your staff on it and would love to follow up with you on it personally.

We always strive to allow local communities to meet their own needs, and sometimes it becomes a challenge when those local needs clash with other dictates. However, we would like to work with you and with the community to see what is possible on that.

Mr. ROTHFUS. So would you agree that you can work with different genders, depending on the context of the situation? For example, if you have a residence that has been helping with domestic abuse survivors, that maybe there should be a particular sensitivity there to the residence?

Secretary CASTRO. Yes, I would agree with you that that does exist in different places. Sure.

Mr. ROTHFUS. And should Washington, D.C., come down and say, no, no, you can't do that, you have to open up the program, when you have a specific population there who—

Secretary CASTRO. Again, I don't want to speak to the specific case. I am not familiar with the details of this particular case.

However, in general, what we like to do is, as I mentioned earlier, have mission-driven flexibility so that we can meet the mission that HUD has, working with local communities, and effectively serving those people that our programs are meant to serve.

Mr. ROTHFUS. Do you know whether there are waivers in a program, for example, that HUD would be able to grant?

Secretary CASTRO. In many of our programs, there are waivers. And under certain circumstances, we have granted waivers on a whole number of things in order to meet the fundamental goal of that program.

Mr. ROTHFUS. We would like to—

Secretary CASTRO. Sure.

Mr. ROTHFUS. —follow up with you and ask you to consider any waivers that would be appropriate to help this very vulnerable population.

In meeting with the housing authorities and affordable housing providers throughout my district, there is some concern and frustration with regulations that are burdensome and require a level of compliance effort that diverts resources away from actually providing housing.

Can you tell me how often HUD is doing a retrospective review of regulations?

Secretary CASTRO. That is a good question.

A few years ago, the President asked each of the Departments to look at all of their regulations and to eliminate at least 5 percent—that was the goal—of those regulations. In that time, roughly over the last 3 or 4 years, HUD has eliminated—I believe the last thing I saw was 11 percent of those regulations. And we would be glad to get your staff a follow-up on which regulations those have been.

We share a goal, I think. And we heard this from Congressman Luetkemeyer and others. We hear very loudly and clearly at PHAs, at nonprofits and other grantees that, "Hey, HUD, can you get better about streamlining some of these administrative burdens?" Where we can do that, mark my words, we are going to—

Mr. ROTHFUS. Is there any formalized ongoing review of existing regulations so that every 2 years—

Secretary CASTRO. Oh, sure. There is. There is a streamlining rule that is in development, and—

Mr. ROTHFUS. The rule is in development right now?

Secretary CASTRO. The rule is in development.

Mr. ROTHFUS. When can we see that?

Secretary CASTRO. The proposed rule was issued in January of 2015, and our goal is to issue that rule in the summer of 2015, so this summer.

Mr. ROTHFUS. Thank you, Mr. Chairman. I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentlelady from Utah, Mrs. Love.

Mrs. LOVE. Hello, Mr. Secretary. How are you doing?

Secretary CASTRO. I am doing well.

Mrs. LOVE. Okay.

I just came in, so I don't know all of the questions that were asked, but I want you to know that I am hoping that we have a good, civil, back-and-forth so we can get some information. Good? Yes?

Secretary CASTRO. Yes. Sure.

Mrs. LOVE. Okay. Great.

I have just finished reading an article in The Hill and I understand that the Administration, the Obama Administration, is moving forward with regulations designed to help diversify America's neighborhoods.

You are pushing forward with that, right?

Secretary CASTRO. I wouldn't characterize it that way, in terms of diversifying America's neighborhoods. I think you are talking about the affirmatively fair housing?

Mrs. LOVE. Okay. Well—

Secretary CASTRO. Furthering fair housing?

Mrs. LOVE. —I am actually looking specifically at a HUD rule that is coming out that is dedicated to diversifying neighborhoods in the attempt to try and end some areas that you think are segregated, for instance.

Secretary CASTRO. Well, yes. We just had a conversation about this, the rule on affirmatively furthering fair housing.

Mrs. LOVE. Okay.

So I just want to know some quick examples that you have where the Federal Government has actually been able to diversify areas or end poverty in local areas where the local municipalities could not do that.

Secretary CASTRO. Yes. That is not the way that I am thinking about it. That is not the way we are thinking about it. The way we are thinking about it—

Mrs. LOVE. How are you thinking about it?

Secretary CASTRO. Yes. So the way we are thinking about it is—and I used to be a mayor. I know you used to be a mayor.

Mrs. LOVE. Yes. That is why I am asking you on—I know that, as a mayor, you wouldn't want the Federal Government coming in and telling you what to do with your zoning laws or with your rules, because you have more skin in the game, you have more of an incentive to take care of the people who live in your areas. You are the boots on the ground. And so that is why I am trying to figure out where you think this would be a good idea.

Secretary CASTRO. Yes. So the linchpin—and I am going to be careful about what I say about the rule, because it is in rulemaking right now. And so we don't want to prejudge all of the contents of the rule.

However, I think it is fair to say that the goal is to ensure that local communities have the tools to assess the landscape of housing in their area and where the investments are, where affordable housing opportunities are—

Mrs. LOVE. Okay.

Secretary CASTRO. —to understand what some of the challenges are—

Mrs. LOVE. So you think that they don't have the tools right now, and you need to provide the tools that they need to landscape their area to have more data for their area?

Secretary CASTRO. I believe that through this rule, they will be able to get, through what we call an Assessment of Fair Housing Tool—

Mrs. LOVE. Do you feel like you didn't have the right type of tools to make the right types of decisions in your area?

Secretary CASTRO. Oh, yes, I said earlier that I wished that I had had this tool when I was mayor. It would have been fantastic, as a policymaker. It truly would have helped us, I think, to understand how we could ensure that throughout the community, people at least have the opportunity for upward mobility. So I am convinced that it is going to be a fantastic tool.

Mrs. LOVE. I have a limited amount of time, so before we go on, can I get a commitment from you that you are not going to do anything that preempts what the municipalities are doing in their areas, that you are not going to go in and make any zoning laws or any rules that are going to preempt what cities are going to do when—

Secretary CASTRO. Yes, I have seen some of the talk about that, Congresswoman. This is not about changing—

Mrs. LOVE. Yes?

Secretary CASTRO. That is right.

Mrs. LOVE. Okay.

Secretary CASTRO. This is not about changing zoning laws, planning laws, anything like that.

Mrs. LOVE. Okay.

Saratoga Springs, Utah, the City that I was mayor of, was named one of the best cities for livability and affordability.

Secretary CASTRO. Okay.

Mrs. LOVE. And it wasn't because we put pockets in areas of affordable housing. It wasn't because we said there are people who cannot afford specific housing so we are going to make sure that we do that. It is because we actually lowered the price. We lowered taxes. We made sure that our taxes paid for public safety, police,

and fire. And we gave people the opportunity to use their own money in order for them to be able to pick affordable housing in their own neighborhoods, neighborhoods of their own choosing, so that their kids can go to schools of their choosing.

One of the things that I am really concerned about—I just put up an article on Facebook that talked about Utah going from 1,932 chronically homeless to 178 homeless. That is remarkable, that a State can actually do that.

Secretary CASTRO. Yes.

Mrs. LOVE. And they have their own housing problems—

Secretary CASTRO. They did it with a lot of our money, so I agree.

Mrs. LOVE. No, no, no. Listen. But they actually did that, because that was their decision.

Secretary CASTRO. With our money.

Mrs. LOVE. They came in—

Secretary CASTRO. Sure.

Mrs. LOVE. They came in—what do mean, “our money?” It is the taxpayer dollars. You think that—

Secretary CASTRO. Yes. Our—

Mrs. LOVE. —this money belongs to you?

Secretary CASTRO. —taxpayer money helped fund HUD–VASH—

Mrs. LOVE. This money does not belong to you. It belongs to the people.

Secretary CASTRO. —and other initiatives. I am proud it. I am proud of what Utah has done.

Mrs. LOVE. It belongs to the people.

Secretary CASTRO. I celebrate with you.

Mrs. LOVE. So what I am saying is that you should take note from what we are doing. Why not follow what Utah is doing so that we can actually end hopelessness?

Every program that we have aimed at poverty should be aimed at making poverty temporary, not tolerable.

Thank you.

Chairman HENSARLING. The time of the gentlelady has expired.

The Chair wishes to advise all Members that in order to accommodate the Secretary’s schedule, the Chair intends to recognize three more Members: the gentleman from Colorado; the gentleman from Arkansas; and the gentleman from Kentucky. To those who are monitoring the hearing in their offices, you are a day late and a dollar short.

At this time, we will recognize the gentleman from Colorado, Mr. Perlmutter.

Mr. PERLMUTTER. Thank you, Mr. Chairman.

Mr. Secretary, it is good to see you.

Secretary CASTRO. Good to see you.

Mr. PERLMUTTER. I would like to talk about some of the sustainability, energy-saving measures that the Department has undertaken with local governments, with local public housing authorities.

I know in Colorado your agency has worked very closely with a number of our local governments and local housing authorities to really make sure that the residents have very well-built units and complexes that are very efficient in their operation.

So if you could just talk to us a little bit about what the agency is doing nationwide and any specific examples that you want to raise.

Secretary CASTRO. Yes. And I want to say how much I appreciate, Representative, the chance that I got to get out to Denver not too long ago. And, in fact, the Denver Housing Authority is a good example of this. I had the chance to visit North Lincoln Homes. And at North Lincoln Homes, they have installed 10,400 solar panels on those buildings.

And what we want is we want folks to have a roof over their heads, we want them to live in a safe environment, and we want them to do it in a healthy environment as well. And we have a win-win here, because it is healthier, it is better for the environment, and they are saving money in terms of energy savings.

Mr. PERLMUTTER. And I just want to—for the record, Colorado is the fittest State in the Nation too. So just—Utah has a lot of—

Secretary CASTRO. I won't challenge you on that.

Mr. PERLMUTTER. —nice things about it—

Secretary CASTRO. I think you are probably right.

Mr. PERLMUTTER. —but I want to talk about Colorado for a second, and I appreciate your doing that.

Secretary CASTRO. Yes.

So we are doing just a whole bunch of work on this. Those buildings were part of what is called our Better Buildings Challenge. And the Better Buildings Challenge includes a push to get multifamily-building owners to agree to improve their energy efficiency by 20 percent over the next decade. And already we have gotten about 89 multifamily partners that represent about 400 million square feet of space and serve 400,000 people. So that is one significant advancement we have made.

There are also other big communities like New York, through its housing authority, NYCHA, that is working to do green-energy retrofits. And we worked with them to make it economically feasible, in conjunction with the private sector, so that they are going to have renovated and more environmentally sound, green-energy units there in New York. And we just think that this is a victory all the way around.

Mr. PERLMUTTER. And I have seen instances where your Department has worked with other Departments within the Federal Government, whether it is Education or Transportation or Energy, to make sure that new complexes, new housing units are near transit so it is easy for the residents to get from one place to another.

Can you comment on that?

Secretary CASTRO. I am confident that one of the lasting legacies of the Obama Administration is that it has broken through the silos. Sustainable Communities is a good example of this, which was HUD, DOT, and EPA working together and asking local communities to do the same thing. Because we know, if we are going to lift up the quality of life for people, it is not just about housing; it is also about access to transit, it is about a good school, it is about the opportunity for a good job. So how do all of us work together across those silos so that folks have a holistic opportunity to rise.

And Denver is a good example of this, whether it is in the investment in transit that connects to some of the housing there or environmental investments that have been made. The Promise Zones that we recently announced the second round of are another good example of this. We want to ensure that we are making an overall, holistic impact on quality of life and economic opportunity.

Mr. PERLMUTTER. Is there anything that I haven't touched on that you would like to talk about?

Secretary CASTRO. Oh, there are a million things we would love to talk about, but we are very proud of so much of the investments that are made. We are also mindful, as folks, I know, on this side of the aisle have said, that we can continue to work on efficiency and accountability, and we will do that.

Mr. PERLMUTTER. With that, Mr. Chairman, I will yield back.

Chairman HENSARLING. The gentleman yields back his time.

The Chair now recognizes the gentleman from Arkansas, Mr. Hill.

Mr. HILL. Thank you, Mr. Chairman.

And thank you, Ranking Member Waters.

Secretary Castro, it is good to have you before the committee today.

I had the pleasure of being in the great State of Texas over the weekend, and I had dinner in Austin at the LBJ Library. And I was thinking quite a bit at that dinner about would the President, this many years later, be happy or sad about the performance of the Great Society programs, since we really haven't gotten poverty, as a percentage of the population, down since his time. And I know we have spent trillions trying to do so.

But I do welcome you back to the committee.

I have met with my public housing authority twice in Little Rock, Arkansas, and one thing that came up consistently was HUD's bureaucratic delays in disposition of properties. I was informed that it can take up to literally a year through your Chicago disposition office to take a property that has been sold, take it off the books. And, therefore, we can't redevelop new units without putting that cash to work, can't do a real estate closing.

That seemed like a really long time to me. I wondered what you consider a good benchmark for that disposition process.

Secretary CASTRO. Yes. I believe it is fair to say that, according to the history of the property and the size of it, that you see a range. However, I agree with you that we certainly should endeavor to do it in a way that is as swift as possible.

And while I am not familiar with the particular case of the Little Rock Housing Authority, I would be glad to follow up with you and with your staff so that we can figure out, with regard to that, how do we improve that situation and then, more broadly, give you an answer on what our average is. It may well be that that is an aberration.

Mr. HILL. No. Well, yes, my question is not case-specific, it is prospective.

Secretary CASTRO. Yes.

Mr. HILL. But I have seen it in a couple of instances now, and I encourage you to set a benchmark that is substantially better than that.

You talked a lot about your success with veteran homelessness today. We appreciate that. But in preparing for the hearing, I was really shocked when I read a CRS memo that suggests that, of the \$45 billion in new discretionary appropriations provided for HUD's programs and activities for Fiscal Year 2015, \$43 billion, so some 95 percent, basically all of it, is—nearly all of that funding is apparently disbursed by automatic or computer-driven funding. And so, it is basically on autopilot that it goes out.

They say it is allocated by formula; 95 percent of HUD's appropriations are allocated by formula. So I assume CDBG or public housing payment or whatever that might be, which means that HUD doesn't have a lot of managerial input.

And this is a real change I have noticed since coming back to Washington, that our Cabinet Secretaries don't have a lot of control about mixing programs or changing personnel. We see it at the Veterans Administration all the time. I know you have been frustrated by it. Whether you chose to mention that here or not is your business.

But it appears to me that—how many more houses could we build or how many more lives could we change if we had a reduction in the 7,800 employees that you have? If 95 percent of your spending is driven by a formula, do you really need that big of a head count?

Secretary CASTRO. Well, we—

Mr. HILL. And could we reduce that head count? What do you think about that?

Secretary CASTRO. We are always looking for efficiency, but let me give you another stat. In January of 1981, we had 16,500 employees at HUD, and today, by the last count that I saw, we had 7,810.

Mr. HILL. Yes, well, you also spent a lot less money then, too. You were spending probably \$10 billion in 1983 in HUD.

Secretary CASTRO. What I am saying is we are having to do more with less people.

But I think you and I can agree on this: that we are always looking for ways, through the use of technology, through just doing things smarter, that we can become more efficient.

Mr. HILL. But does that number shock you, 95 percent? Does that surprise you, that CRS says that 95 percent of your spending is all based essentially on a standing formula that flows out to your—

Secretary CASTRO. Does it surprise me? I might want to double-check that percentage. It doesn't surprise me that a lot of our programs are essentially formula-funded. However, there are also a number of them that are competitive-funded, as well.

But it is either formulaic or competitive. There is not much discretionary power that is given over—

Mr. HILL. So what do—

Secretary CASTRO. —to the Cabinet Secretary.

Mr. HILL. —what do the nearly 8,000 people do in that instance, then?

Secretary CASTRO. Oh, they essentially administer these programs. We have had a lot of talk about how we can ensure more

accountability. They are our front line in ensuring that accountability.

Mr. HILL. But if you just had a good Inspector General and get Congress to agree to a big IT upgrade, wouldn't that—if you are going to have that much automated spending, wouldn't that be the way to handle it?

In other words, where do they get to innovate? Where do they get to add value?

Secretary CASTRO. Well, no, that is why I do think that we need the investment in IT, so that we can achieve some of that. I agree with you on that.

Mr. HILL. I yield back, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Kentucky, Mr. Barr.

Mr. BARR. Thank you, Mr. Chairman.

And, Mr. Secretary, thank you for your patience. We are winding up the hearing here, and I appreciate your time here today.

The Congressional Research Service, as you probably know, reports that HUD has spent since its origination in 1965 approximately \$1.65 trillion on its programs over the course of these 50 years. And yet, since 1965, the percentage of prime-age male workers in the workforce has declined from over 90 percent to only about 77 percent today. Also, the official poverty rate, as has been discussed, has remained essentially flat.

In 1965, 7 percent of American children were born outside of marriage. Today, that number is over 40 percent. That matters, of course, because single-parent families are 4 times more likely than married-couple families to lack self-sufficiency and to persist in poverty.

And finally, since 1965, since the advent of your Department, the number of single-parent families in official poverty has more than tripled.

So we have talked about this quite a bit today, but how do you personally define success in the mission of the Department of Housing and Urban Development?

Secretary CASTRO. We have addressed this, Congressman. I define success in several ways.

First of all, somebody having a roof over their head, a veteran who served our country having a roof over his or her head is success.

Mr. BARR. Can I stop you right there? I agree with you. Putting—

Secretary CASTRO. Well, then, we agree on that.

Mr. BARR. But I want to elaborate here a little bit.

Secretary CASTRO. Sure.

Mr. BARR. Putting a roof over someone's head is success, certainly, in keeping that individual out of homelessness—

Secretary CASTRO. For the Department of Housing.

Mr. BARR. Sure. But wouldn't you define success with higher expectations, that the aspiration of your agency shouldn't just be putting a person who is homeless into shelter or putting a roof over their head, but instead putting a person in a position where they themselves are putting a roof over their head? Isn't that the expect-

tation that we would want? Isn't that what the American taxpayers expect in terms of the return on their investment?

Secretary CASTRO. What they expect is that the Department of Housing will provide safe, quality, affordable housing first. And then we also, of course, want to work to ensure that people also have the stability to get onto the path that they want in life. But let's not suggest that the fact that they have a roof over their head doesn't count for anything.

Mr. BARR. Oh, it certainly counts. I just think that our aspirations need to be much higher. Our expectations are far too low. The expectation should be that success is measured not just in how many people we are moving into dependency on the Department—

Secretary CASTRO. I wouldn't call it dependency.

Mr. BARR. —but how many people we are moving—

Secretary CASTRO. I would disagree with that.

Mr. BARR. —how many people we are moving out—

Secretary CASTRO. There is no evidence—

Mr. BARR. —of dependence on—

Secretary CASTRO. —to suggest dependency.

Mr. BARR. I think we just went over a few statistics on that, but—

Secretary CASTRO. What is the evidence on that?

Mr. BARR. Since my time is expiring, Mr. Secretary, let's talk about your stated testimony, which I appreciate, that you are always looking for ways to become more efficient, you are always working on efficiency and accountability, and that you have assigned your Deputy Secretary to lead an operational and management review, the Deep Dives, to deliver more efficiency.

Let me give an example of where I think the Department could deliver on that commitment. In Kentucky, I have heard from many of my constituents who are grantees of Continuum of Care, which is supposed to take care of our homeless population. In one city in Kentucky with a homeless rate that is average, they are getting about \$8 million. In a similar city with the same homelessness rate, they are getting about one-eighth of that money.

And for those constituents in that underserved community, what they tell me is that HUD has been capricious in prohibiting unused funds from being redirected. So, in other words, in the city with the large number of Continuum of Care funds, the grantee is supposed to by statute have 24 months to expend all those funds, or those funds will be recaptured.

But the statute also says that the Secretary shall reallocate the funds for another homeless assistance and prevention project that meets the requirements of this part to be carried out, if possible and appropriate, in the same geographic area as that area served through the original grant. But I have heard from my constituents that the request to move the unexpended funds from one grantee in one Kentucky county to another less than an hour away has been denied.

So my question to you is, what do you define as a geographic area? And why can't we take unspent funds in one area and reallocate those to another area where there is an equal and chronic need?

Secretary CASTRO. That is a great question. In fact, it is a great question because this is one of the things that we would like to work on, especially in smaller communities, to allow them to be able to share resources, whether it is on overhead or direct provision of services. So, let's work on that.

Mr. BARR. Mr. Secretary, I appreciate your offer. I want to work with you on that to, again, help you make good on your commitment to make these dollars go further for the American taxpayer.

Thank you. I yield back.

Secretary CASTRO. Thank you.

Chairman HENSARLING. The time of the gentleman has expired. I would like to thank the Secretary for his testimony today.

[applause]

The committee will come to order.

The Chair notes that some Members may have additional questions for this witness, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to this witness and to place his responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

This hearing stands adjourned.

[Whereupon, at 1:06 p.m., the committee was adjourned.]

A P P E N D I X

June 11, 2015

**FINANCIAL SERVICES COMMITTEE
OPENING REMARKS
RUBEN E. HINOJOSA**

**“THE FUTURE OF HOUSING IN AMERICA: OVERSIGHT
OF THE DEPARTMENT OF HOUSING AND URBAN
DEVELOPMENT”**

JUNE 11, 2015

**RAYBURN 2128
10:00 AM**

**THANK YOU CHAIRMAN HENSARLING AND RANKING
MEMBER WATERS FOR HOLDING THIS IMPORTANT HEARING
TODAY AND THANK YOU MR. SECRETARY FOR APPEARING
BEFORE THIS COMMITTEE.**

**AS WE CELEBRATE HUD’S 50TH YEAR ANNIVERSARY, I THINK
IT IS IMPORTANT TO HIGHLIGHT THE IMPORTANCE OF HUD’S
MISSION. HUD’S HOME OWNERSHIP, RENTAL ASSISTANCE
AND OTHER PROGRAMS PROVIDE SAFE AND STABLE HOME
ENVIRONMENTS FOR OUR MOST NEEDY OF CITIZENS.**

THESE PROGRAMS KEEP FAMILIES AND CHILDREN OUT OF POVERTY, PREVENT HOMELESSNESS, AND OPEN THE DOOR FOR ECONOMIC EMPOWERMENT AND OPPORTUNITY. STUDIES CONSISTENTLY SHOW THAT STABLE AND AFFORDABLE HOUSING WILL LEAD TO BETTER HEALTH AND EDUCATIONAL OUTCOMES FOR CHILDREN AND ADULTS. IMPORTANTLY, HOUSING INSTABILITY HAS BEEN SHOWN TO DETRIMENTALLY AFFECT A CHILD'S EMOTIONAL, COGNITIVE AND PHYSICAL DEVELOPMENT, AS WELL AS THEIR FUTURE ACADEMIC ACHIEVEMENT AND FUTURE PROSPERITY AS ADULTS.

HOUSING PROGRAMS UNDER HUD ARE A "LIFELINE" FOR MANY OF OUR CHILDREN IN LOW INCOME FAMILIES. THESE PROGRAMS ARE NOT WASTE TO BE CUT. RATHER, THEY ARE AN INVESTMENT IN OUR CHILDREN'S FUTURE AND IN THE SOCIAL FABRIC OF OUR NATION.



Written Testimony of Julián Castro
Secretary of U.S. Department of Housing and Urban Development (HUD)
Hearing before the House Financial Services Committee
on
“The Future of Housing in America: Oversight of the Department of Housing and Urban
Development”
June 11, 2015

Thank you Chairman Hensarling and Ranking Member Waters for this opportunity to discuss the future of housing in America. This year, the Department of Housing and Urban Development (HUD) celebrates its 50th Anniversary, and this occasion provides us with the chance both to reflect on the Department’s accomplishments and look forward as we chart our course over the next 50 years. I welcome the opportunity to appear before this Committee to discuss HUD’s mission, how far we’ve come, where we want to go, and how our budget request helps us get there.

Five Decades of Opportunity for the American People

Fifty years ago, HUD’s creation reflected a new way of thinking about our urban communities. For years, a number of stakeholders had been advocating for a Cabinet-level agency focused on cities. It was a goal that John F. Kennedy established as a part of his campaign platform when running for President in 1960. And immediately after taking office at his first State of the Union Address, President Kennedy called for the creation of a new Urban Affairs Department.

In September 1965, President Johnson answered that call for action when he signed into law legislation establishing HUD as the eleventh department of the Federal Government. In that year, President Johnson said, “We must make sure that every family in America lives in a home of dignity and a neighborhood of pride, a community of opportunity and a city of promise and hope.”

For the last 50 years, HUD’s dedicated employees have done extraordinary work towards making these goals a reality in American life by creating affordable housing, helping working and middle class families achieve responsible homeownership, tackling homelessness and the lack of affordable housing for low-income families, and fueling healthy economic development.

The Department’s mission is driven by an underlying belief that all Americans should have the opportunity to live in a vibrant, safe and stable community that they can be proud of. This is the core value of our work and it is reflected in HUD’s accomplishments over the past half century:

- The Federal Housing Administration (FHA) continues to provide access to mortgage credit for responsible but underserved families. It has insured more than 40 million home mortgages since its inception. In the last three years alone, FHA has insured the loans of 1.6 million borrowers and, in so doing, helped the housing market stabilize after the worst housing crisis in FHA's 80-year history.
- In the last 20 years, HUD has provided housing assistance to more than 35 million individuals¹ through our Public Housing, Housing Choice Voucher (Section 8), Project Based Rental Assistance, Section 202 (Supportive Housing for the Elderly), and Section 811 (Supportive Housing for Persons with Disabilities) programs.
- Over the past two decades, HUD's HOME Program has assisted more than 600 communities produce more than 1.2 million affordable housing units, including almost 500,000 units for first-time homebuyers. In addition, HOME has assisted more than 300,000 tenants obtain direct rental assistance.²
- Since its creation in 1974, the Community Development Block Grant (CDBG) has invested nearly \$150 billion in communities nationwide. CDBG is an important catalyst for economic growth, helping communities leverage funds for essential water and sewer improvement projects, address housing needs, forge innovative partnerships to meet increasing public service needs, and revitalize their economies.
- The Indian Housing Block Grant (IHBG), the largest program under the Native American Housing Assistance and Self-Determination Act (NAHASDA), has infused almost \$11.4 billion to support a range of affordable housing and community development activities in tribal communities over the past 18 years. Over the life of the program through 2014, IHBG recipients have built or acquired almost 37,000 affordable housing units in Indian Country, and substantially rehabilitated almost 72,000 units.³ IHBG recipients also currently maintain more than 46,000 "HUD units" that were funded before NAHASDA was enacted.

A Vision of Opportunity

I truly see HUD as the "Department of Opportunity." When I joined HUD nearly a year ago, I recognized HUD's proud legacy of providing opportunities and support for struggling and working class Americans. From providing housing assistance to stabilizing communities, the work we do everyday empowers families and communities to realize their dreams. We call HUD the Department of Opportunity because -- whether you're rich or poor, young or old, a

¹ Since 1995, HUD has provided housing assistance to more than 35 million individuals through its Public Housing, Housing Choice Voucher, Project Based Rental Assistance and Section 202/811 programs. In 1995, HUD started compiling from agencies the data they submit on 50058 (Public Housing and Housing Choice Vouchers, Mod Rehab) and 50059 (PIBRA, 202, 811) forms about tenants. These data include the SSN, name, and other demographic information about each member of an assisted household. As of March 31, 2015 we had 35,339,714 unique SSNs retained in our historical data files for the individuals we have served through our assistance programs.

² HOME: National Production Report as of 5/31/15, posted on the HOME Program Page at the HUD Exchange https://www.hudexchange.info/resource/reportmanagement/published/HOME_Prod_Natl_20150531.pdf

³ These figures are taken from HUD's forthcoming Report to Congress: Native American Housing Assistance and Self-Determination Act, Fiscal Year 2014.

Republican or a Democrat -- housing shapes the quality of your life. Good housing and strong communities are not only a source of hope, but a driving force of our economy.

My vision and priority is to build upon our Department of Opportunity, produce measurable and tangible results, and lay the groundwork for the future. So far over the past year we have:

- *Made homeownership more accessible by reducing FHA's annual mortgage insurance premiums by 50 basis points.* This measure will save more than two million households over \$2 billion during the next three years. It will also encourage more than 250,000 new borrowers to enter the market and create tens of thousands of jobs;
- *Continued to build on the success of President Obama's "Opening Doors" plan to prevent and end homelessness,* an effort started prior to my arrival, which has led to a 21 percent drop in chronic homelessness and a 33 percent drop in homelessness among veterans.⁴ Just recently, I traveled to Houston to celebrate yet another city that has ended veterans homelessness altogether with the help of our programs;
- *Led efforts to reduce wasteful energy consumption.* HUD spends \$6.4 billion annually -- 14 percent of HUD's budget -- on utility costs for affordable housing properties and households. On average, low- and moderate-income households spend 14.6 percent of their income on energy costs -- that's four-and-a-half times higher than the energy burden for households with higher incomes.⁵ HUD has been leading efforts with the Department of Energy (DOE) to expand the Better Buildings Challenge into multifamily housing. As of today, DOE and HUD have welcomed nearly 100 multifamily housing partners to the Better Buildings Challenge to cut energy waste. To date, these partners have committed to reduce energy consumption by 20 percent within a decade; and,
- *Converted 32,000 units from the Public Housing, Moderate Rehabilitation and Rent Supplement and Rental Assistance Payments (Rent Supp and RAP) programs to section 8 under the Rental Assistance Demonstration (RAD).* By offering a long-term contract tied to a historically more reliable funding stream and a regulatory structure that facilitates partnerships with other forms of private and public financing, RAD is essential to preserving scarce affordable housing assets. The demonstration promotes public-private development activity and recapitalizes the HUD-assisted housing portfolio for long-term stability and affordability.

Although I am extremely proud of our accomplishments, I share the concerns of many of our community partners who understand that the Department's budget is insufficient to serve all of those who depend on our programs. I joined the Department at a time when budget cuts imposed by sequestration have undermined its ability to meet the demand for its services, and I have seen how a lack of resources has left communities severely challenged. Under HUD's current

⁴ HUD's 2014 Annual Homeless Assessment Report to Congress (2014): <https://www.hudexchange.info/resources/documents/2014-AHAR-Part1.pdf>

⁵ U.S. Department of Energy, Building Energy Data Book, 2011, <http://buildingsdatabook.eren.doc.gov/>.

budget, we are only able to help one out of four people eligible for rental assistance. That is why passing the President's budget proposal for HUD is so critical.

Operationalizing Opportunity

Despite HUD's current budgetary constraints, we are taking proactive steps to carry out our important mandate to better serve the people who depend on our programs. We understand HUD needs to improve the way we do business and to continue to modernize the agency so that it can operate effectively for the next 50 years and beyond.

To this end, during her first five months, Deputy Secretary Nani Coloretto led an operational and management review -- referred to here as a series of "Deep Dives" -- to assess whether we are directing our resources to address our highest priorities. This exercise enabled us to identify areas of strength and areas to improve. To build a stronger HUD, the Department must increase our capacity to execute our mission in three key areas--people, processes and systems.

We learned that HUD does many things very well. For example, we administer complex grant programs, build interagency coalitions, and deploy technical assistance to communities around the country. HUD has many dedicated employees working to help those who rely on our programs.

To build on our strengths, we have implemented several measures that seek to optimize our workflow and improve coordination throughout the agency. In response to the Deep Dives, we have established a new quarterly governance process to provide leadership with ongoing visibility into management metrics and goals, and to use data to make better operational decisions.

We are also among the federal agencies leading the movement to adopt shared services, which help the Department get out of the business of certain back office functions. This year, we will move our core financial system to Treasury's service provider to improve HUD's financial management and internal controls. Already, we have moved all of our transactional hiring responsibilities to the same organization.

In addition to strengthening our financial systems, we are improving our financial management. We anticipate that 10 of 11 material weaknesses on our financial statements will be resolved or reduced significantly by the end of this fiscal year.

We are changing how HUD makes IT funding decisions by taking a more agile, enterprise-wide approach to IT investments, which will help decommission antiquated systems, and improve system availability and security.

We've also implemented an enterprise-wide approach to the delivery of technical assistance (TA) by streamlining decision-making, sharing project management across offices, and reducing duplicative TA projects. This approach delivers cross-cutting TA for issues like financial management, environmental review and fair housing, rather than duplicating the same training with different providers in each program area. This results in less staff time devoted to TA

management and better assistance for our grantees, who can now access on-demand program resources, training and answers to questions.

We have a renewed commitment to investing in our staff's professional development by working to increase the management and leadership capacity of staff. We have re-established a Senior Executive Service candidate development program by partnering with another agency, and will require core training for all managers and supervisors.

Evidence-Based Opportunity

Last year during my confirmation process, I stated that one of my goals during my tenure is to make evidence-based practices the norm at HUD so we can maximize our dollars and improve outcomes. Even with constrained budgets and resources, HUD has made data-driven analysis central to all of its work. By collecting information on the performance of our program participants and measuring outcomes, HUD has identified successful strategies that increase accountability, improve the delivery of services, and allow the Department to make its budget go farther. I am pleased today to let you know about several areas where we are demonstrating data-driven results.

Two of HUD's most high profile programs, Choice Neighborhoods (Choice) and the RAD program, which have served as laboratories for innovation at the local level, have been the subject of evaluation by HUD's Office of Policy Development and Research.

HUD research partners have analyzed data that Choice Neighborhoods participants are required to submit as part of their programmatic agreements to measure impacts on the neighborhoods where Choice has been implemented.⁶ Data collected so far suggest that Choice Neighborhoods have contributed to improving early childhood education. Based on the evolving success of the Choice Neighborhoods program, the President has requested an additional \$250 million to continue to build on the program's accomplishments.

Data generated by participants in the RAD program have also been the subject of thorough analysis by HUD researchers. Early analysis of participants in RAD has shown that, compared to a comparison group of PHAs not participating in the program, RAD participants have been able to spur significantly more private investment in their communities. So far, the RAD program has generated half a billion dollars in outside investment, and RAD projects in the pipeline anticipate delivering a 19:1 leverage ratio of non-HUD to HUD dollars.⁷ By carefully tracking how federal investments attract additional capital from the private sector, HUD is gaining a more accurate understanding of how programs like RAD further the Department's mission of generating quality affordable housing across the country.

In addition to using data to learn about the effectiveness of programs like RAD and Choice Neighborhoods, HUD has also funded the Administrative Fee Study to measure the actual costs

⁶ Choice Neighborhoods Evaluation, interim report (2013) and final report (to be released June 2015): http://www.huduser.org/portal/choice_neighborhood_eval.html

⁷ A Progress Report on the Rental Assistance Demonstration (RAD) Evaluation (2014): http://www.huduser.org/portal/RAD_Evaluation.html

of operating high-performing and efficient Housing Choice Voucher programs.⁸ The Administrative Fee Study, which tracked a broad range of expenses incurred by 60 PHAs between 2012 and 2014, revealed what PHAs already know to be true: that the current PHA administrative fee formula does not reflect the main cost drivers of a well-run, high performing voucher program.

Other research conducted by HUD has shown how vital Housing Choice Vouchers are for preventing family homelessness and many of the negative outcomes associated with it, like child separation, intimate partner violence, and chronic school absence.⁹ The President's Budget calls for specific authority to serve vulnerable populations, such as families experiencing homelessness, Native Americans, survivors of domestic and dating violence, families with children in foster care, youth aging out of foster care, and homeless veterans, regardless of their discharge status.

Finally, we have used data to monitor and improve how efficiently our programs are run. For example, the HUD Quality Control for Rental Assistance Subsidy Determinations Study has enabled the Department to decrease improper payments by 73 percent since 2000.¹⁰ Although the complexity of our rental assistance programs sometimes leads to payment errors, the use of data has enabled HUD to zero in on problematic practices and significantly reduce instances of underreported resident income and other errors that lead to improper tenant subsidies.

Securing Opportunity for the Future

While the HUD team has been focused on improving program efficiency, we cannot ignore that HUD programs are underfunded relative to demand and need for our programs. The President's Budget would increase HUD's funding level to \$49.3 billion, nearly \$4 billion more than Fiscal Year 2015's enacted level. The additional \$4 billion that the Administration has requested for Fiscal Year 2016 seeks to reverse the impact of sequestration on critical HUD programs. This increase will allow HUD to reach those who depend on our work and to better advance our mission.

This begins with helping more Americans secure a place to call home. HUD's Budget proposes more than \$21 billion for the Housing Choice Voucher Program. This funding would extend support to more than 2.4 million low-income families. The President's Budget also restores vouchers lost to sequestration -- which will help 67,000 households.

This support is urgently needed. Last year, Americans living in a number of cities, including Phoenix, St. Louis, San Francisco and Denver, were confronted with rents that increased by double-digit percentages from the year before. And the crunch in housing affordability comes at a time when millions of our fellow citizens are working harder to make ends meet. As HUD outlined in our 2015 "Worst Case Housing Needs" Report to Congress (based on 2013 American Housing Survey data), there are 13.7 million very low-income renter households in the United

⁸ HUD HCV Administrative Fee Study (2015): <http://www.huduser.org/portal/hcvfeestudy.html>

⁹ HUD Family Options Study (to be released July 2015): http://www.huduser.org/portal/family_options_study.html

¹⁰ HUD FY2013 QC Report (2015): http://www.huduser.org/portal/publications/pubassu/QCinc_fy13.html

States that receive no assistance to cover the cost of housing.¹¹ Even more alarming, 7.7 million of those renter households – those with the “worst case needs” – live in severely inadequate housing, pay more than 50 percent of their income in rent, or both.¹²

In addition, the President’s Budget for Fiscal Year 2016:

- *Supports the Mortgage Market and Provides Access to Credit.* The Administration projects that FHA will insure \$204 billion in mortgage loans in 2016, including mortgages for new home purchases and refinanced mortgages that significantly reduce borrower payments. FHA’s loss mitigation program minimizes the risk of financially struggling borrowers going into foreclosure, while reducing losses to the insurance fund. Last year, FHA helped more than 477,000 families avoid foreclosure. The President’s Budget also includes \$60 million for housing and homeowner counseling through HUD.
- *Provides Ladders of Opportunity for High-Poverty Communities.* The President’s Budget provides \$250 million for Choice Neighborhoods to continue to transform neighborhoods of concentrated poverty into opportunity-rich, mixed-income neighborhoods. This funding level will be used to revitalize HUD-assisted housing and surrounding neighborhoods through partnerships between local governments, housing authorities, nonprofits, and for-profit developers. Preference for these funds will be given to designated Promise Zones—high-poverty communities where the Federal government is working with local leadership to invest and engage more intensely to create jobs, leverage private investment, increase economic activity, reduce violence and expand educational opportunities. To further support Promise Zones, the Budget includes companion investments of \$150 million in the Department of Education’s Promise Neighborhoods program and \$29.5 million in the Department of Justice’s Byrne Criminal Justice Innovation Grants program, as well as tax incentives to promote investment, jobs and economic growth.
- *Supports Strategic Infrastructure Planning and Investments To Help Make America a Magnet for Jobs.* HUD is committed to ensuring that its core community and housing development work contributes to more and better transportation choices; promotes equitable, affordable housing; helps communities address the lingering neighborhood impacts of the foreclosure crisis; and aligns federal policies and funding to remove barriers to local collaboration. The President’s Budget provides \$2.8 billion for the Community Development Block Grant (CDBG) formula program, and proposes reforms to better target CDBG investments to address local community development goals.
- *Protects the Vulnerable Recipients of HUD Rental Assistance and Makes Progress on the Federal Strategic Plan to End Homelessness.* The Budget includes \$21.1 billion for the Housing Choice Voucher program to help about 2.4 million low-income families afford decent housing in neighborhoods of their choice. This funding level supports all existing vouchers and fully restores the sequestration funding cuts by adding 67,000 new

¹¹ Worst Case Housing Needs: 2015 Report to Congress:
http://www.huduser.org/portal/publications/afhsg/wc_HseNeeds15.html

¹² *Ibid.*

vouchers to the program. The Budget also includes \$10.8 billion for the Project-Based Rental Assistance program to maintain affordable rental housing for 1.2 million families, and provides \$6.6 billion in operating and capital subsidies to preserve affordable public housing for an additional 1.1 million families.

- *Provides \$2.5 billion for Homeless Assistance Grants, \$345 million above the 2015 enacted level.* The increased funding will enable HUD to maintain existing projects, fund the increased competitive renewal demand for Continuums of Care, and create 25,500 beds of permanent supportive housing for chronically homeless persons to reach the goal of ending chronic homelessness in 2017. In addition, the President's Budget includes 15,000 rapid rehousing interventions for households with children, which will support the goal of ending child, family and youth homelessness by 2020.
- *Puts HUD-subsidized Public and Assisted Housing on A Financially Sustainable Path.* Public housing authorities (PHAs) support housing for over three million families. To bring our rental housing system into the 21st century and continue to address the \$26 billion in public housing capital needs, the President's Budget includes proposals that would facilitate the conversion and preservation of additional public housing and other HUD-assisted properties under RAD. At the same time, the President's Budget provides \$50 million for a targeted expansion of RAD to public housing properties in high-poverty neighborhoods, including designated Promise Zones, where the Administration is also supporting comprehensive revitalization efforts.
- *Improves the Way Federal Dollars Are Spent.* The Administration continues to seek legislation to modernize the Housing Opportunities for Persons With AIDS (HOPWA) program to better reflect the current case concentration and understanding of HIV/AIDS, and ensure that funds are directed in a more equitable and effective manner. The Budget's \$332 million recommended investment in HOPWA, in combination with the proposed grant formula modernization, will assist local communities in keeping individuals with HIV/AIDS housed, making it easier for them to stay connected to treatment and, therefore, improving health outcomes for this vulnerable population.
- *Supports the evidence-based Jobs-Plus program with \$100 million, a proven model for increasing public housing residents' employment and earnings.* Through Jobs-Plus, public housing residents will receive on-site employment and training services, financial incentives that encourage work and "neighbor-to-neighbor" information-sharing about job openings, training, and other employment-related opportunities.
- *Expands the Moving-To-Work (MTW) demonstration program to up to 15 high-capacity PHAs over the next three years through a competition.* MTW provides PHAs with program flexibility to make local decisions about how to operate their programs rather than a one size fits all policy. It also allows PHAs to test innovative uses of federal dollars to enhance tenant outcomes. MTW PHAs have implemented a range of policies designed to increase the overall affordable housing inventory, housing choice, administrative efficiencies, and earnings for low-income families to obtain self-sufficiency.

- *Invests in Research and Technical Assistance to Make HUD and its Grantees More Effective.* The American economy of the future requires a federal government that is efficient, streamlined, and transparent. The President's Budget once again calls for the flexible use of resources through the Transformation Initiative (TI). The Department will use TI to invest in technical assistance to build the capacity of our partners to safeguard and effectively invest taxpayer dollars, and conduct relevant and informative research so we can fund what works and stop funding what doesn't.
- *Supports Native American communities.* HUD is focused on expanding opportunities for native communities. The President's Budget proposes opening the Jobs-Plus program to tribes with a \$15 million set-aside. This competitive program would provide support to help residents of housing assisted under NAHASDA obtain employment and increase earnings. HUD applauds the work of this Committee in making the reauthorization of NAHASDA a priority – it is essential to furthering housing opportunities and building sustainable communities throughout Indian Country.

Challenges to Opportunity

Recently, the House considered the bill to appropriate HUD's funding for 2016 (H.R. 2577). If enacted, the House bill would hinder our efforts to carry out our mission and invest in communities that need investment the most, and it does not reflect the need for increasing housing assistance and urban investment.

- *Housing Choice Voucher (HCV) Program.* Our Housing Choice Voucher program, which serves the nation's most vulnerable families and individuals, is funded under the House bill at six percent less than the President's request. In total, compared to the President's Budget, the House bill would serve roughly 100,000 fewer families.

Not only does the House bill fail to restore the 67,000 vouchers lost due to the 2013 sequestration, the funding level is also insufficient to renew 28,000 existing vouchers or provide full funding for tenant protection needs.

Without these vouchers, HUD will not be able to re-issue vouchers upon turnover to low-income households, or provide new vouchers for families, including tribal families, and veterans, experiencing homelessness, as well as victims of domestic or dating violence, youth aging out of foster care, and families with children in the foster care system for whom voucher assistance could facilitate reunification.

- *Choice Neighborhoods.* Due to the success of, and high demand for the Choice Neighborhoods program, the President proposed \$250 million in Fiscal Year 2016 to support the transformation of underserved communities. The House Budget guts this program, funding it at only \$20 million or 92 percent less than the President's Budget request. Each Choice Neighborhoods implementation grant is approximately \$30 million, so the House mark would not even fund one full grant.

- *Homelessness.* The House bill shows how reverting to sequestration funding levels for domestic investments would once again undermine our efforts to meet critical priorities, and jeopardizes the progress that has been made in reducing homelessness in America.

Compared to the President's Budget, the House bill cuts support for Homeless Assistance Grants by \$295 million, or 12 percent, supporting 15,000 fewer homeless or at-risk families with rapid rehousing and 25,500 fewer units of permanent supportive housing targeted to the chronically homeless.

- *Public Housing Capital Fund.* The House bill's 15 percent cut of \$289 million from HUD's Budget would cause further deterioration of public housing.¹³
- *Healthy Homes.* The House bill would endanger the health of low-income families living with hazardous materials in their house. It slashes HUD's Office of Lead Hazard Control and Healthy Homes by nearly 40 percent, resulting in at least 3,400 fewer low-income children receiving lead hazard control grant assistance in their home.

The House bill would eliminate \$45 million to protect young children from lead poisoning and other housing related health and safety hazards such as mold and moisture, radon, pests and other asthma triggers.

- *Rental Assistance Demonstration.* The House bill would prevent the modernization of more public housing and affordable housing units by not removing the cap for RAD. In addition, HUD requested \$50 million in incremental subsidies for the RAD program, which was not included in the House bill. RAD is an important tool for doing capital work with private dollars on public housing. It is estimated that RAD has leveraged more than half a billion dollars in private capital.
- *Jobs-Plus.* The House bill potentially denies low-income Americans an opportunity to obtain job training and a good salary by only providing the Jobs-Plus Demonstration program with \$15 million, well below HUD's requested \$100 million. Jobs-Plus is a critical initiative, in partnership with the Department of Labor, to help public housing residents increase their earned income and become self-sufficient through employment services offered in one-stop centers (American Job Centers) across the country.
- *Affordable Housing Units.* The House bill would provide \$173 million less than requested in HOME funds, which help states, cities and municipalities build low-income housing. The President proposed \$1.06 billion, but the House bill funds it at \$887 million. This cut fails to recognize that we must significantly confront this nation's affordable rental housing crisis by producing more affordable units.
- *Technical Assistance.* The House bill would eliminate funding for technical assistance. This cut undermines HUD's efforts to protect billions of dollars that the federal

¹³ HUD 2014 Annual Homeless Assessment Report to Congress (2014): <https://www.hudexchange.info/resources/documents/2014-AHAR-Part1.pdf>

government invests in communities by ensuring that grantees and intermediaries have the knowledge, skills, and ability to use funds efficiently and effectively.

Building Housing Opportunity for the Future

Though the House bill falls short in critical areas, there are opportunities in the President's Budget for HUD and this Committee to work together to strengthen and improve the efficiency of key HUD programs. The President's Budget contains a number of legislative changes that can help HUD build on and expand programs that work and make improvements to those that can be made more effective and efficient.

The President's legislative proposals would eliminate the current 185,000 unit cap on RAD conversions, allowing this innovative program to continue to recapitalize more projects and also expand the Moving To Work program to include 15 additional high-capacity PIAs.

The Budget proposes a comprehensive reform package for CDBG that would strengthen the program by helping grantees target funding resources to areas of greatest need; enhance program accountability to synchronize critical program cycles with the consolidated plan cycle; reduce the number of small grantees; and provide more options for regional coordination, administration and planning. In addition, the budget increases the percentage of funds that southern border states may set aside for Colonias.

For the HOPWA program, the administration proposes changing the statutory funding formula to better target areas with individuals currently living with AIDS rather than relying on historical numbers to allocate funding.

To improve FHA, the President's Budget proposes a package of reforms to enhance enforcement, create more certainty for FHA-approved lenders and improve loss mitigation opportunities for borrowers to help them avoid foreclosure. The Budget would allow FHA to seek indemnification from Direct Endorsement lenders, provide enhanced authority to terminate origination and underwriting approval, and revise FHA's compare ratio. In addition, FHA seeks a fee to enhance administrative contract support and information technology to implement a more robust quality assurance process and increase access to credit.

Conclusion

Though the worst effects of the financial crisis have passed, HUD programs are as important as they have ever been for lower and middle class families seeking stable, safe and affordable housing. As we celebrate our half-century anniversary, we find that working proactively to keep our communities strong and to extend opportunity to those striving for it is as crucial to our nation's future as it was 50 years ago. The Department's bedrock programs like FHA and Housing Choice Vouchers have been dependable forces for good in communities throughout America, and new programs like RAD and Choice Neighborhoods are making exciting innovations possible.

In 1965, President Johnson said that the American city should be a place where we satisfy our needs for shelter and work, where education expands our horizons and extends our expectations, where we feel safe, and where every person can find the satisfaction and warmth that comes from being a member of a community.

By working with Congress, partners and stakeholders, we can ensure that we meet the demand for the critical support we provide -- improving communities, ending homelessness, and helping working class families afford a place called home.

Thank you for the opportunity to appear before you today. I would be pleased to answer your questions.



Office of Public and Indian Housing, Washington, DC

Monitoring of the Community Service and Self- Sufficiency Requirement

Office of Audit, Region 7
Kansas City, MO

Audit Report Number: 2015-KC-0001
February 13, 2015



To: Unabyrd Wadhams
Deputy Assistant Secretary, Office of Field Operations, PQ

Milan Ozdinec
Deputy Assistant Secretary, Office of Public Housing and Voucher Programs, PE

DJ LaVoy
Deputy Assistant Secretary, Office of Real Estate Assessment Center, PX

From: //signed//
Ronald J. Hosking
Regional Inspector General for Audit, 7AGA

Subject: HUD Subsidized More Than 106,000 Noncompliant Households

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of HUD's monitoring of the community service and self-sufficiency requirement.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 913-551-5870.



Audit Report Number: 2015-KC-0001
Date: February 13, 2015

HUD Subsidized More Than 106,000 Noncompliant Households

Highlights

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) monitoring of the community service and self-sufficiency requirement (CSSR). We initiated this audit based on several media reports of housing authorities not enforcing CSSR or only recently stressing its enforcement. This audit report is a follow-up to the audit report we issued in 2008, showing that HUD did not have adequate controls to ensure that housing authorities properly administered CSSR. Our audit objective was to determine the extent to which HUD subsidized units occupied by noncompliant tenants and housing for tenants whose CSSR status was misreported.

What We Found

HUD subsidized housing for 106,000 units occupied by noncompliant tenants, out of nearly 550,000 potentially CSSR-eligible units nationwide. Out of the nearly 740,000 adult tenants living in these units, HUD's system contained incorrect CSSR status codes for 201,000 tenants. This deficiency occurred because HUD did not have adequate controls to monitor compliance with CSSR. As a result, HUD paid more than \$37 million in monthly subsidies for public housing units occupied by noncompliant tenants that otherwise could have housed compliant households.

What We Recommend

We recommend that HUD develop and implement a written monitoring policy for CSSR to ensure that public housing authorities comply with the Quality Housing and Work Responsibility Act of 1998 so that more than \$448.5 million in public housing operating subsidies will be put to better use over the next year. We also recommend that HUD (1) create clarifying guidance for housing authorities, (2) develop training, (3) apply penalties or sanctions against housing authorities that house ineligible households, (4) produce improved monitoring reports for field offices, and (5) fix the error codes resulting from Form HUD-50058 submissions.

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Background and Objective

The U.S. Department of Housing and Urban Development (HUD) established its public housing program to provide decent and safe rental housing for eligible low-income families, the elderly, and persons with disabilities. There are approximately 1.2 million households living in public housing units, managed by approximately 3,300 public housing authorities. HUD's Public Housing Operating Fund program provides operating subsidies to public housing authorities to assist in funding their operating and maintenance expenses.

The Quality Housing and Work Responsibility Act of 1998, which amended Section 12 of the U.S. Housing Act of 1937, established the community service and self-sufficiency requirement (CSSR). It is intended to assist adult public housing residents in improving their own economic and social well-being and give these residents a greater stake in their communities. The requirement allows residents an opportunity to "give something back" to their communities and facilitates upward mobility.

Regulations for the requirement are provided in 24 CFR (Code of Federal Regulations) 960.600-609. In addition, HUD's Office of Public and Indian Housing (PIH) Notice PIH-2009-48, issued November 25, 2009, helps public housing authorities understand and administer CSSR in response to an audit report issued by the Office of Inspector General (OIG) on March 24, 2008. This Notice was extended by Notice PIH-2011-11 and Notice PIH-2012-13 indefinitely until amended, superseded, or rescinded and without substantial change.

CSSR states that every nonexempt adult resident of public housing must contribute 8 hours of community service each month or participate in an economic self-sufficiency program. Community service is the performance of voluntary work or duties that are a public benefit and serve to improve the quality of life, enhance resident self-sufficiency, or increase resident self-responsibility in the community. Self-sufficiency programs include programs for job training, employment counseling, work placement, basic skills training, and education.

Residents exempt from the requirement are those who are

- 62 years of age or older;
- Blind or disabled and who certify that because of this disability, they are unable to comply with the service provisions or primary caretakers of such individuals;
- Engaged in eligible work activities;
- Exempt from having to engage in a work activity under the State program funded under the Social Security Act or a State-administered welfare-to-work program; or
- Members of a family receiving welfare assistance, benefits, or service under a State welfare program.

At lease execution or reexamination, all adult members (age 18 or older) of a public housing resident's household must provide documentation showing that they qualify for an exemption if they claim to be exempt from CSSR. At each annual reexamination, nonexempt tenants must

present documentation of activities performed over the previous 12 months. Documentation will include signatures of supervisors, instructors, or counselors certifying the number of hours contributed. If during reexamination a tenant is found to be noncompliant, the member and head of household will sign an agreement with the public housing authority to make up the deficient hours over the next 12-month period, or the lease will be terminated.

Based on Notice PIH-2009-48, HUD sends field offices a monthly community service monitoring report generated by the PIH Information Center (PIC) system. This report alerts field offices to potential issues of noncompliance with the requirement. Field offices contact and advise those public housing authorities showing noncompliant public housing residents. This remote monitoring provides information for onsite reviews and identifies potential issues, problems, concerns, and negative trends regarding compliance with CSSR.

Section 6 of the U.S. Housing Act of 1937 provides sanctions against any public housing authority failing to comply substantially with any provision of the Act relating to the public housing program. Sanctions include but are not limited to terminating, withholding, or reducing assistance payments.

We issued audit report 2008-KC-0002, HUD Did Not Ensure That Housing Authorities Properly Administered the Community Service and Self-Sufficiency Requirement, on March 24, 2008. In that audit, we found that HUD did not have adequate controls to ensure that housing authorities properly administered CSSR. Specifically, HUD did not have sufficient guidelines, adequate data collection and reporting systems, or effective enforcement mechanisms. Of 68 statistically selected households, 44 did not comply with CSSR and were, therefore, ineligible for continued occupancy. Based on these results, we estimated that housing authorities improperly renewed or extended the leases of at least 85,000 ineligible households, costing an estimated \$21.5 million in monthly operating subsidies.

In the 2008 report, we recommended that HUD improve controls to ensure that housing authorities properly administer CSSR, resulting in more than \$257 million put to better use annually. We also recommended that HUD require housing authorities to take corrective action against the 44 ineligible households identified as part of our statistical sample review. All recommendations for that report are closed.

The audit objective for this current audit was to determine the extent to which HUD subsidized units occupied by noncompliant tenants and housing for tenants whose CSSR status was misreported.

Results of Audit

Finding: HUD Subsidized More Than 106,000 Noncompliant Households

HUD subsidized housing for 106,000 units occupied by noncompliant tenants, out of nearly 550,000 potentially CSSR-eligible units nationwide. Out of the nearly 740,000 adult tenants living in these units, HUD's system contained incorrect CSSR status codes for 201,000 tenants. This deficiency occurred because HUD did not have adequate controls to monitor compliance with CSSR. As a result, HUD paid more than \$37 million in monthly subsidies for public housing units occupied by noncompliant tenants that otherwise could have housed compliant households.

HUD Subsidized Housing for Improperly Reported and Noncompliant Tenants

We selected a nationwide statistical sample of 80 households made up of 154 tenants within the age range that requires compliance with CSSR. We reviewed housing authority records for each of the sample items to determine (1) whether the unit included a tenant allowed to remain in the unit despite noncompliance with CSSR and (2) whether the CSSR status of the tenant was properly reported. A tenant could be counted as an exception in our sample for either question or both questions.

Noncompliant Tenants

HUD subsidized 23 households from our sample for which housing authorities improperly renewed or extended the leases of noncompliant tenants without entering into a workout agreement. Notice PIH-2009-48 requires housing authorities to enter into a written workout agreement with noncompliant tenants (see appendix D).

In one example, HUD subsidized a household from our sample which was made up of tenants who were improperly coded as "exempt" because the housing authority implemented its own CSSR exemptions that were not provided in HUD's regulations. The housing authority stated that the whole household was exempt because a tenant received food stamps, when the receipt of food stamps by a tenant does not automatically exempt an entire household.

Based on the noncompliant households identified in our sample of 80, we projected the results and estimated that housing authorities renewed or extended the leases of at least 106,000 ineligible households.

Improperly Reported Tenants

HUD received incorrect tenant information from public housing authorities about tenant compliance with CSSR. Housing authorities continued to code tenants as "pending" when the proper code at annual reexamination was "compliant," "noncompliant," or "exempt." In addition, housing authorities sometimes coded tenants as "noncompliant" when they had adequate employment documentation on file to support an "exempt" code. Further, housing authorities coded tenants enrolled in college as "exempt" when the correct code for higher

education is “compliant.” Lastly, noncompliant tenants were sometimes incorrectly coded as “exempt.” Therefore, the tenants’ codes did not comply with CSSR in Notice PIH-2009-48 (see appendix D). Based on 70 tenants within the sampled households whose CSSR status was improperly reported, we projected the results and estimated that 201,000 tenants nationwide were improperly reported to HUD. Some of these improperly reported noncompliant tenants are also included in the 106,000 units discussed above.

HUD Had Inadequate Monitoring Controls

HUD did not have adequate controls for monitoring compliance with CSSR. Specifically, it did not have sufficient monitoring guidelines, adequate reporting systems, or effective sanction enforcement procedures.

Insufficient Monitoring Guidelines

HUD did not have written monitoring policies and procedures in place regarding CSSR. HUD conducted a risk assessment each year to determine monitoring at the highest risk housing authorities; however, CSSR did not factor into this risk assessment. In addition, HUD sent out a letter each year to the field offices, communicating monitoring priorities, but CSSR compliance was not included in the priorities.

HUD headquarters allowed the field offices the flexibility to choose how they monitored CSSR. Of the 56 housing authorities reviewed, 11 indicated that HUD conducted reviews or monitoring of CSSR at their authority, while 42 indicated that HUD did not, and 3 did not answer or answered “unknown.”

Inadequate Reporting Systems

HUD did not have an adequate reporting system in place to track compliance and identify problems. We reported the same problem in HUD OIG Audit Report 2008-KC-0002, issued March 24, 2008, and as a result of that audit, HUD agreed to issue a monthly community service monitoring report as noted in Notice PIH-2009-48. However, these reports were last run and distributed in December 2012. A Real Estate Assessment Center contractor generated the reports, and when the contract expired, HUD decided not to dedicate resources to renew it.

The community service monitoring reports were not an effective tool for monitoring housing authorities’ compliance with CSSR. The purpose of the report was to alert field offices of potential CSSR noncompliance issues. However, the report did not include all CSSR-eligible tenants. For example, the report did not include tenants who received wages. Notice PIH-2009-48 encouraged housing authorities to use 30 hours per week as full time for the work exemption. Therefore, excluding all tenants who received wages made the report inaccurate. In addition, the report excluded welfare recipients, even though receiving food stamps does not qualify tenants for an exemption. The report also did not include disabled tenants. This exclusion conflicted with the Notice since disabled tenants must certify that because of their disability they are unable to perform community service and self-sufficiency activities.

HUD’s published fatal error codes relating to CSSR on Form HUD-50058 were not correct and did not result in accurate CSSR reporting. A Form HUD-50058 fatal error stops the submission process for that household. First, the fatal errors make a tenant exempt when the relationship code is equal to F = foster child or foster adult. HUD requirements do not exempt all foster

adults. Second, fatal errors make a tenant exempt when the tenant is listed as disabled. All disabled adults should not be coded as "exempt." Only those whose disability makes them unable to perform community service and self-sufficiency activities are exempt. However, the fatal error codes require housing authorities to code all foster adults and all disabled adults as "exempt." Otherwise, the Form HUD-50058 submission will not be accepted by the system.

Ineffective Sanction Enforcement

HUD did not apply sanctions against housing authorities that failed to enforce CSSR compliance. The U.S. Housing Act of 1937, as amended, indicates that HUD may terminate, withhold, or reduce assistance payments to housing authorities that fail to comply with its requirements. However, HUD noted that it usually issued sanctions only for more serious violations. HUD lists these sanctions in Notice PIH-2009-48 as penalties/sanctions against housing authorities housing ineligible households yet does not enforce them for CSSR noncompliance.

HUD also noted that some housing authorities wanted to take action, such as eviction, but certain jurisdictions made it difficult to evict anyone for noncompliance with CSSR. HUD stated this makes it very challenging for them to enforce the requirement. However, HUD must enforce the Act by supporting housing authorities that follow CSSR by not renewing the leases of noncompliant tenants.

HUD Subsidized Noncompliant Tenants

HUD paid more than \$37 million in monthly subsidies for public housing units occupied by noncompliant tenants that could have otherwise housed compliant tenants. Potential tenants were kept on waiting lists, while tenants who were noncompliant with CSSR continued to live in subsidized housing. Based on the ineligible 23 households in our sample, we projected the results and estimated that HUD provided subsidies of more than \$37 million per month for ineligible households. If HUD strengthens its controls over CSSR, we estimate that at least \$448 million will be better used to house compliant households over the next year.

Conclusion

HUD spent an estimated \$37 million each month subsidizing at least 106,000 ineligible households. In addition, HUD subsidized housing for 201,000 tenants whose CSSR status was improperly reported. The Quality Housing and Work Responsibility Act of 1998, which amended Section 12 of the U.S. Housing Act of 1937, established CSSR. It is intended to assist adult public housing residents in improving their own economic and social well-being and give these residents a greater stake in their communities. This congressionally mandated requirement allows residents an opportunity to "give something back" to their communities and facilitates upward mobility. If HUD does not strengthen its controls, it will pay at least \$448 million over the next year in subsidies for public housing units occupied by noncompliant tenants that otherwise could house compliant households.

Recommendations

We recommend that the Deputy Assistant Secretary for Field Operations

- 1A. Develop and implement a written monitoring policy for CSSR to ensure that public housing authorities comply with the Quality Housing and Work Responsibility Act

of 1998 so that \$448,580,654 in public housing operating subsidies will be put to better use.

We recommend that the Deputy Assistant Secretary for Public Housing and Voucher Programs

1B. Create clarifying guidance for housing authorities to follow-up with noncompliant tenants to address the projected 106,000 ineligible households receiving subsidies from HUD and on proper CSSR coding to address the projected 201,000 tenants improperly reported to HUD.

1C. Develop training to assist housing authorities in understanding and administering CSSR.

1D. Apply penalties or sanctions established by the Act against housing authorities that house ineligible households.

We recommend that the Deputy Assistant Secretary for the Real Estate Assessment Center

1E. Produce the monitoring reports again to assist field offices in monitoring CSSR eligibility updating them to include all CSSR-eligible tenants.

1F. Fix the fatal error codes resulting from the housing authority submissions of Form HUD-50058 to allow accurate reporting of foster and disabled adults.

Scope and Methodology

We performed our audit work between April and December 2014 at our office in St. Louis, MO. Our audit period covered July 2012 through June 2014.

To accomplish our objective, we

- Reviewed relevant laws, regulations, and HUD guidance;
- Reviewed HUD monitoring reports and reviews;
- Interviewed HUD staff to gain an understanding of relevant monitoring controls;
- Selected and reviewed a statistical sample of households to determine their compliance, noncompliance, or exemption from CSSR; and
- Reviewed CSSR policies for the housing authorities included in our sample.

We relied in part on data maintained by HUD in its PIC system. Specifically, we relied on the system to identify households occupying public housing units during our audit period. Although we did not perform a detailed assessment of the reliability of the data, we determined that the computer-processed data were sufficiently reliable for our purposes because we corroborated the data with documentation provided by housing authorities in our sample.

Using data from PIC, we identified 547,711 households nationwide that had lived in public housing for more than a year and had at least 1 tenant between 19 and 61 years of age as of June 30, 2014. These households were made up of 739,194 tenants within the age range that requires compliance with CSSR.

We also relied on HUD's Central Accounting and Program System (HUDCAPS), another database maintained by HUD, to assess the impact on Federal dollars. Although we did not perform a detailed assessment of the reliability of the data, we did review prior audits and assessments from which we determined that the computer-processed data were sufficiently reliable for our purposes. In HUDCAPS, we identified the amount of Federal dollars paid to each housing authority between July 1, 2013, and June 30, 2014. We identified the number of low-rent units at a housing authority by the greater of either the number of active low-rent units listed in HUD's housing authority reports as of August 31, 2014, or the total number of active household records reported in HUDCAPS. With this information, we were able to compute the amount of the Federal operating subsidy spent per unit per year by each housing authority.

The projected amount is a conservative estimate due not only to deducting a margin of error, but also excluding several housing authorities with atypical data or unusual levels of expense. We excluded 5 housing authorities containing 339 units because they had no units listed or HUD did not fully fund them. We also did not include housing authorities with atypical funding streams and administration. We omitted 142 housing authorities from the audit universe as outliers because the Federal subsidy per unit from standard operating funds was unusually low at less than \$1,000 per year or unusually high at greater than \$6,000. These limitations left a total of

2,903 housing authorities, of which 2,883 had households in our audit universe because they contained tenants who had to comply with CSSR.

To accurately project both the number of households and number of tenants affected by CSSR, we used a household as a base sampling unit. We stratified households into six groups according to the amount of Federal subsidy and four subgroups according to the number of tenants who may be required to perform community service based on their age. First, we ranked households by subsidy amount and broke them up into six groups according to where their subsidy amount fell within the percentile ranking of the universe. Because one housing authority owned 20.7 percent of the rental units and 27.6 percent of the dollars in this national universe, we needed to assign it a separate cost grouping to control statistical variance and avoid unexpected overestimates in the statistical projections. Within each cost grouping, we subdivided households into four subgroups based on having one, two, three, or multiple (four or more) tenants having to comply with CSSR. These two dimensions combine to create 24 total strata (6×4) shown in the sample design table in appendix C.

Using this stratification scheme, we tested the performance of several counts and sample designs using replicated sampling. We selected a statistical sample of 80 households from these strata, using the surveyselect procedure in SAS[®]. We then used these households for two separate types of projections: (1) dollars going to noncompliant households and the number of households affected and (2) total number of tenants who were incorrectly coded in PIC for CSSR.

We contacted the 56 housing authorities where the 80 households lived to obtain documentation related to the tenants within the age range that requires compliance with CSSR. When applicable, we asked for specific details about household circumstances and any enforcement actions taken against the noncompliant households. We evaluated the compliance, exemption, or noncompliance of all adult household tenants for the most recent annual recertification during our audit period. We also requested each sampled housing authority's CSSR policies and asked whether HUD provided support or monitoring of the policy.

We projected the sample results of 23 units occupied by noncompliant tenants and 70 miscoded tenants. For the first projection, we treated the sample of 80 households as a traditional, stratified sample for projecting proportions and counts and for projecting the mean dollars spent on households that should have contributed community service. For the second projection, we took the 154 tenants within the age range that requires compliance with CSSR and treated this larger group as a cluster sample, with each household being a separate cluster. Using these clusters, we projected the total number of improperly classified tenants. Because the stratification system groups households according to how many tenants are eligible, the differing numbers of tenants had no bias. Also, because we reviewed all of the tenants within the age range that requires compliance with CSSR, the variance within each cluster was zero, thereby allowing for a tight margin of error in a cluster sample of this size.

We statistically estimated that HUD subsidized housing for 201,000 tenants whose CSSR status was improperly reported and 106,000 units occupied by noncompliant tenants. As a result, HUD paid more than \$37 million in improper operating subsidy payments each month, or more than \$448 million annually. This estimate does not include offsetting costs for HUD to implement

our recommendations to strengthen monitoring controls because we were not able to reasonably estimate these costs.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations.
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Controls over monitoring compliance with CSSR.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- HUD did not have written CSSR monitoring policies and procedures in place.
- HUD did not have adequate reporting systems in place to track CSSR compliance and identify problems.
- HUD did not have effective sanction enforcement procedures to ensure that housing authorities enforced CSSR.

Appendixes

Appendix A

Schedule of Funds to Be Put to Better Use

| Recommendation number | Funds to be put to better use 1/ |
|-----------------------|----------------------------------|
| IA | 448,580,654 |
| Totals | 448,580,654 |

- 1/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an OIG recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified.


In this instance, if HUD implements our recommendations, it will ensure that tenants who do not perform the required community service are not permitted to continue to reside in public housing. Housing authorities will no longer spend HUD's operating subsidies for noncompliant households but will instead spend those funds to house compliant households. Our estimate reflects only the initial year of this benefit. These amounts do not include potential offsetting costs incurred by HUD to implement our recommendations to strengthen monitoring controls.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG
Evaluation

Auditee Comments


U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-5000
OFFICE OF PUBLIC AND INDIAN HOUSING

MEMORANDUM FOR Ronald J. Hosking, Regional Inspector General for Audit, AGA

FROM: DI Lacey, Deputy Assistant Secretary, Office of Real Estate Assessment Center, PX

Milan M. Ozdince, Deputy Assistant Secretary, Office of Public Housing and Voucher Programs, PE

Unahyd L. Wadhams, Deputy Assistant Secretary, Office of Field Operations, PQ

SUBJECT: Office of Public and Indian Housing Responses to Discussion Draft Report – HUD Subsidized More Than 106,000 Noncompliant Households

This memo provides responses to the OIG Audit Report on the Community Service and Self-Sufficiency Requirement deficiencies within the Office of Public and Indian Housing.

General Comments

Page 5 – The estimates of 106,000 units occupied by noncompliant tenants and 201,000 tenants whose CSSR status was improperly reported is misleading. This is because OIG is using two different categories – units and tenants – to describe the perceived problem. While it may be true that there are families residing in 106,000 units that have a noncompliant family member, and that there may be a total of 201,000 tenants whose CSSR is improperly reported, the numbers can be read to overstate the number of families that are noncompliant due to families that are counted in both categories. PIH/OPHVP recommends that OIG clarify the distinction between units and tenants in this report, and add an estimate of the number of families that are noncompliant, and the number of families that were just improperly coded. For example, on page 5, OIG discusses that a PHA improperly coded a family as exempt because the PHA misunderstood HUD's exemptions, which resulted in a noncompliant family being subsidized. However, this same family is also listed in the improperly reported tenants section, which leads to the perception that the issue is more significant than is actually the case.

Page 6 – OIG suggests that the exclusion of families with wages from the monitoring reports resulted in an understatement of potentially noncompliant tenants from the report. As evidence, OIG references PIH 2009-48 where HUD recommends, but does not require, PHAs to use an average 30-hour work week as the standard for the work exemption. However, HUD's

Comment 1

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 2

regulations and the CSSR statute do not mandate that 30 hour standard; therefore, a PHA could adopt a policy that any qualifying work activity, regardless of how many hours per week, could exempt a family from the CSSR requirement. PIH OPHVP recognizes that excluding all families with wages from the report may understate the number of families that are potentially noncompliant, however, where PHAs have discretion to set policy for HUD to run automated reports that would not overstate the potential number of noncompliant families. Thus, a report that includes any family with wages would potentially result in additional, unnecessary investigation by HUD and PHAs. PIH OPHVP continues to believe that any new iteration of the monitoring report needs to consider some wage parameters. Further, PIH OPHVP recommends that OIG clarify the language in the audit report regarding the deficiency of the monitoring report to acknowledge the discretionary authority of PHAs to adopt a work hour standard that is different than the 30 hour standard recommended by HUD potentially reducing their estimate of funds that could be put to better use. Through guidance, the Department will reiterate the requirement that PHAs must review the monitoring local report that relies on wages against their policy for hours worked to be considered exempt.

Comment 3

Responses to Recommendations

OIG Recommendation 1A: Develop and implement a written monitoring policy for CSSR to ensure that public housing authorities comply with the Quality Housing and Work Responsibility Act of 1998 so that \$448,580,654 in public housing operating subsidies will be put to better use.

Agree. PIH will distribute the CSSR monthly monitoring reports provided by REAC. In addition, using the guidance developed by PIH OPHVP for housing agencies to administer the Community Service and Self-Sufficiency Requirements (CSSR) PIH OPHVP will develop a risk-based monitoring protocol, and will assist with the training of housing agencies.

Target completion date: For recommendation 1D, REAC has indicated that the reports will resume by June 30, 2015. PIH OPHVP will issue reports within 5 work days of receipt from REAC.

OIG Recommendation 1B: Create clarifying guidance for housing authorities to follow-up with noncompliant tenants to address the projected 106,000 ineligible households receiving subsidies from HUD and on proper CSSR coding to address the projected 201,000 tenants improperly reported to HUD.

Agree. PIH OPHVP agrees to review and revise Notice 2009-48 as necessary to provide clarifications for PHAs about their responsibilities to ensure resident compliance with CSSR.

Target completion date: PIH OPHVP expects to provide updated guidance to PHAs by June 30, 2015 on administration of the CSSR requirement and coding based on the current

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

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|---|
| <p style="text-align: right;">3</p> <p>system. However, updated guidance on proper coding will also need to follow any updates that PHH generates pursuant to Recommendation 1E.</p> <p>OIG Recommendation 1C: Develop training to assist housing authorities in understanding and administering CSSR.</p> <p>Agree. PHH/PHVP agrees to develop trainings jointly with PHH/OFO to assist PHAs in understanding and administering the CSSR requirement.</p> <p><u>Target completion date:</u> PHH/PHVP expects to complete training development by October 1, 2015.</p> <p>OIG Recommendation 1D: Produce the monitoring reports again to assist field offices in monitoring CSSR eligibility updating them to include all CSSR-eligible tenants. Agree. PHH/REAC agrees with the recommendation. As noted in the report, the loss of the contracted reporting team following the decision to not renew their contract ended the generation of the CSSR report in December 2012. A new contractor has been hired and this team will take the existing report logic, meet with the HUD business office to ensure that the reporting requirements are properly defined, and start preparing the report on a regular, reoccurring basis.</p> <p><u>Target completion date:</u> PHH/REAC expects the updated reports will be available by June 30, 2015.</p> <p>OIG Recommendation 1E: Fix the fatal error codes resulting from the housing authority submissions of Form HUD-50058 to allow accurate reporting of foster and disabled adults.</p> <p>Agree. PHH/REAC agrees with the recommendation.</p> <p>PIC currently has the following fatal errors pertaining to the Meeting Community Service Requirement field:</p> <ul style="list-style-type: none"> • If valued, must equal '1', '2', '3' or '4' • MCSR must be valued for all family members when program type is 'P' and Type of Action is '2' or '12' • MCSR must be 4 when effective date minus date of birth is less than 18 years for a youth • MCSR must be 4 when effective date minus date of birth is greater than or equal to 62 years for an adult • MCSR must be 4 when relationship code is equal to 'F', 'Y', 'E' or 'I' • MCSR must be 4 when disability indicator is 'Y' <p>We propose to add three items to our master requirements list:</p> |
|---|

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

- Modify the existing error code pertaining to relationship code so code 'F' - foster member, is excluded from this edit
- Create a new warning edit that checks age of any member that is type 'F' against the 50058 effective date, and if over 18 years old require a response of '-1', '-2', '-3', '-4'
- Modify the disability error code to a warning, edit the validation so that a member coded as Disabled = Yes and meeting requirement = '4', to include language that states "the resident is coded as Disabled = Yes and Exempt, ensure tenant has certified that his/her disability excludes them from meeting the CSSR requirement"

Target Completion Date: These modifications are subject to the availability of limited resources to make the changes in the system. Any system changes are also subject to the timing of established system release schedules. Subject to the availability of funds, PHH REAC expects the modifications will be completed by May 31, 2016.

OIG Recommendation 1F: Apply penalties or sanctions established by the Act against housing authorities that house ineligible households.

Agree. HUD will develop policies and protocols regarding the application of penalties and/or sanctions against housing authorities that house ineligible households.

Target completion date: PHH OPHVP and PHH OFO expect to develop such policies and protocols by October 1, 2015.

OIG Evaluation of Auditee Comments

- Comment 1 The two different numbers presented in the report represent two separate, but sometimes overlapping problems. The first problem is noncompliance, resulting in ineligibility to continue living in the unit. Units included in this count may or may not have been coded as noncompliant. The second problem is coding errors, which is an information issue for HUD and the housing authorities who cannot process tenants correctly if they make incorrect compliance determinations. Not all of the noncompliant households we found during our audit are also part of the improperly reported tenants. We added clarifying language in the audit report.
- Comment 2 We used the local CSSR policies of the sampled public housing authorities when we reviewed for employment exemptions, so we did not overstate the degree of noncompliance by applying a more rigorous standard. There is a contradiction as to whether the CSSR Monitoring Report lists eligible tenants or eligible households. In the comments above HUD says "if we provide a report that includes any family with wages..." yet the CSSR Monitoring Report says "Residents in column G who do not have wages or welfare income listed in Section 7 of the Form HUD-50058." It would not be appropriate to exclude an entire household due to wages as each adult must be evaluated for compliance individually. In addition, each adult should be evaluated for the 12 month period leading up to the reexamination date, whereas the wages listed on the form are prospective. Over 40 percent of the noncompliant units we reviewed would have been excluded from CSSR monitoring reports because the noncompliant tenants had wages or welfare listed on the 50058. These tenants were not exempt because some were not employed for enough hours to be exempt under the housing authority's policy, some were currently employed but during the preceding year the tenant was not employed, and some received only food stamps which does not exempt a tenant from completing community service. Excluding all households with wages or welfare from the CSSR monitoring report is not going to be useful as it does not show a true picture of the noncompliance regarding CSSR.
- Comment 3 We will work with HUD to reach a management decision as the current response does not state when it will fully implement each recommendation. We have renumbered our recommendations for the final report. The recommendations referred to as 1D, 1E, and 1F in the Auditee Comments have been renumbered to 1E, 1F, and 1D, respectively, for the final report.

Appendix C**Sample Design Table**

| Strata | Annual Federal subsidy | Sample households | Population count | | Sampling weights |
|---------------------|---------------------------|----------------------|------------------|---------|---------------------|
| | | | Households | Members | |
| 0-10pct_1_CSSR | 79,065,590.31 | 4 | 43,900 | 43,900 | 10975.00 |
| 0-10pct_2_CSSR | 20,908,042.88 | 2 | 11,494 | 22,988 | 5747.00 |
| 0-10pct_3_CSSR | 2,828,858.35 | 2 | 1,546 | 4,638 | 773.00 |
| 0-10pct_Multi_CSSR | 723,935.85 | 2 | 399 | 1,673 | 199.50 |
| 10-30pct_1_CSSR | 222,244,938.52 | 9 | 83,752 | 83,752 | 9305.78 |
| 10-30pct_2_CSSR | 60,968,348.65 | 2 | 23,037 | 46,074 | 11518.50 |
| 10-30pct_3_CSSR | 10,574,911.15 | 2 | 3,963 | 11,889 | 1981.50 |
| 10-30pct_Multi_CSSR | 2,790,300.93 | 2 | 1,038 | 4,396 | 519.00 |
| 30-50pct_1_CSSR | 306,665,304.56 | 10 | 89,671 | 89,671 | 8967.10 |
| 30-50pct_2_CSSR | 66,008,906.15 | 2 | 19,414 | 38,828 | 9707.00 |
| 30-50pct_3_CSSR | 10,773,565.23 | 2 | 3,164 | 9,492 | 1582.00 |
| 30-50pct_Multi_CSSR | 2,413,844.46 | 2 | 703 | 2,940 | 351.50 |
| 50-76pct_1_CSSR | 424,478,158.07 | 12 | 100,996 | 100,996 | 8416.33 |
| 50-76pct_2_CSSR | 105,624,445.95 | 2 | 25,232 | 50,464 | 12616.00 |
| 50-76pct_3_CSSR | 22,122,541.57 | 2 | 5,281 | 15,843 | 2640.50 |
| 50-76pct_Multi_CSSR | 5,542,912.70 | 2 | 1,322 | 5,550 | 661.00 |
| 94-100pct_1_CSSR | 82,764,461.16 | 2 | 15,597 | 15,597 | 7798.50 |
| 94-100pct_2_CSSR | 19,709,422.61 | 2 | 3,732 | 7,464 | 1866.00 |

| Strata | Annual Federal subsidy | Sample households | Population count | | Sampling weights |
|--------------------------|---------------------------|----------------------|------------------|---------|---------------------|
| | | | Households | Members | |
| 94-100pct_3_CSSR | 3,952,175.77 | 2 | 752 | 2,256 | 376.00 |
| 94- 100pct_Multi_CSSR | 960,419.72 | 2 | 182 | 768 | 91.00 |
| NYCHA_1_CSSR | 316,711,059.80 | 7 | 64,480 | 64,480 | 9211.43 |
| NYCHA_2_CSSR | 163,620,949.51 | 2 | 33,312 | 66,624 | 16656.00 |
| NYCHA_3_CSSR | 54,171,933.60 | 2 | 11,029 | 33,087 | 5514.50 |
| NYCHA_Multi_CSSR | 18,247,233.05 | 2 | 3,715 | 15,824 | 1857.50 |
| Totals | 2,003,872,260.57 | 80 | 547,711 | 739,194 | |

Sample selection is explained in the Scope and Methodology section.

Appendix D

Criteria

HUD Notice PIH-2009-48

Community service volunteer work and economic self-sufficiency requirements mandate that each nonexempt adult household member (18 years or older) shall either contribute 8 hours per month of community service within his or her community, or participate in an economic self-sufficiency program for 8 hours per month. The requirements can also be met by a combination of 8 hours of community service and participation in an economic self-sufficiency program. At least 8 hours of activity must be performed each month. An individual may not skip a month and then double up the following month, unless special circumstances warrant it. The public housing authority will determine whether to permit a deviation from the schedule.

Housing authorities develop a local policy for administration of the CSSR for public housing residents within their Admissions and Continued Occupancy Policies (ACOP). Elements of the CSSR policy include, but are not limited to, the housing authority's responsibility to administer the requirement, eligible and non-eligible activities, exemptions from the requirement, and compliance review standards.

The ACOP presents how the housing authority determines if an individual is exempt from the CSSR and the documentation needed to support the exemption. Exemptions for adult residents unable to participate include persons who are 62 years or older; blind or disabled who certify that because of this disability, they are unable to comply with the service provisions or is a primary caretaker of such individual; engaged in work activities; able to meet requirements under a State program funded under part A of title IV of the Social Security Act or under any welfare program of the State in which the authority is located; or a member of the family receiving assistance, benefits, or services under a State program funded under part A of title IV of the Social Security Act or under any welfare program of the State in which the authority is located.

Authorities are encouraged to use 30 hours per week as the minimum number of hours for a work activity. Housing authorities must describe in its policy the process to determine which tenants are exempt from the requirement, as well as the process for determining any changes to the exempt status of the tenant. Housing authorities provide the household a copy of the policy at initial application and secure certification of receipt. The housing authority makes the final determination whether to grant an exemption from the CSSR.

At lease execution or reexamination, all adult members (18 or older) of a household must provide documentation that they qualify for an exemption if they claim to be exempt from the CSSR. Nonexempt members must present documentation of the community service and self-sufficiency activities performed over the previous year.

If during reexamination a tenant is found to be noncompliant, then a written notice from the housing authority to the tenant is provided. It states what the non-compliance with CSSR is, states that lease renewal is contingent upon compliance or execution of a written work-out agreement or that the noncompliant tenant must move out, that the tenant may request a grievance hearing on the housing authorities determination, and that the tenant may exercise any available judicial remedy. The tenant and the head of household sign a work-out agreement with the housing authority to make up the deficient hours over the next year or the lease will be terminated.

Section 6(j)(4)(A) of the United States Housing Act of 1937 provides sanctions against any housing authority failing to comply substantially with any provision of the Act relating to the public housing program. Sanctions include, but are not limited to, terminating, withholding, or reducing assistance payments. These sanctions are applicable to housing authorities failing to substantially comply with the CSSR requirement.

Answers to Questions for the Record

**FSC Full Committee Hearing, "The Future of Housing in America: Oversight of the
Department of Housing and Urban Development"
June 11, 2015**



Rep. Maxine WatersQuestion One

Can you discuss HUD's process for tracking when a household with a Housing Choice Voucher (HCV) moves from one housing authority to another (called "porting")?

HUD captures data on portability moves through form HUD-50058; PHAs submit the form directly to HUD whenever a household moves from one PHA jurisdiction to another. Specifically, form HUD-50058 captures the following data points: whether the family moved into the PHA's jurisdiction under portability, and, if so, the cost billed per month and the PHA code for the PHA that is being billed (the PHA where the family originated from, commonly referred to as the "initial PHA"). These data points allow HUD to know the number of voucher participants at a given period in time that have ported from the initial PHA, and, of those, how many vouchers are being billed and how many are absorbed by the receiving PHA. HUD also knows (of those vouchers being billed) which PHA the participant is moving from and the PHA the participant is moving to.

Question Two

Some have insinuated that move-out rates in rental assistance programs should be the metric by which HUD measures success for assisted residents. But with over 55 percent of residents in HUD's rental assistance programs headed by households who are elderly or persons with disabilities, this kind of metric does not reflect realistic goals. HUD's own data shows that 43 percent of residents in HUD-assisted housing are working. Further, the Center on Budget and Policy Priorities reports that 88 percent of households that received rental assistance in 2010 were elderly, disabled, working (or had recently worked) or likely have access to work programs under the Temporary Assistance for Needy Families (TANF) program. Can you discuss this data, and what do you see as the core mission of HUD's rental assistance programs and the importance of providing safe, decent, and affordable housing in order for families to thrive?

HUD's core mission is to create strong, sustainable, inclusive communities and quality affordable homes for all. Because HUD administers distinct rental assistance programs that support a wide range of low-income families and individuals in a variety of circumstances, a number of metrics are necessary to measure the full range of success. For example, improved quality of life (e.g., stable housing, health outcomes) for those persons who are elderly and disabled would be considered positive outcomes. For those recipients who have the ability to work, a more appropriate metric of success is obtaining and retaining employment. HUD has been focusing efforts on providing families with access to opportunities and increased self-sufficiency through programs like Jobs Plus and Family Self-Sufficiency, and HUD's commitment to these programs is evidenced in the President's FY 2016 Budget.

The Jobs-Plus Pilot Program provides intensive, employment-focused services targeting able-bodied, working-age residents in select public housing communities. The Family Self-Sufficiency Program is another example of a program that provides access to opportunity, and the President's FY 2016 Budget would allow members of the Project-Based Rental Assistance program to compete for FSS funding.

Question Three

What is HUD's timeline for rebidding the Performance Based Contract Administration (PBCA) contracts? How will HUD ensure that its rebid for PBCA services complies with federal procurement law, the Federal Circuit ruling and Congressional intent?

Based on the procurement lead-time for full and open competition contract awards, HUD expects new PBCA contracts could not be awarded for at least 18-24 months. HUD will conduct these awards through its existing pipeline for competitive contracts, using the Federal Acquisition Regulations (FAR), HUD's internal regulations, and all applicable statutory provisions governing the use of the PBCA funds appropriated each year.

Rep. Patrick Murphy**Question One**

In your view, is this caused by excessive legal pressure from the DOJ or unworkable FHA guidelines?

HUD does not believe that FHA guidelines are unworkable. In fact, FHA endorsed nearly 800,000 single-family forward loans in Fiscal Year (FY)2014, enhancing access to private mortgage financing for creditworthy, responsible borrowers who otherwise might not be able to enjoy the benefits of homeownership.

Over 3,000 private lenders participate in the FHA insurance program – most of these lenders do not focus on FHA-insured lending alone, and all participate in the FHA insurance program voluntarily.

Though FHA lenders do not exist in every city, there are FHA lenders in most Congressional districts, familiar with the needs of borrowers, specific to that specific community. In fact, HUD-approved housing counseling agencies are available, both in person and online, to assist borrowers in understanding their lending options, particularly FHA products if the borrower finds that to be the most suitable product for their needs.

To participate in the FHA lending program, lenders must meet certain qualifications and certify that FHA-insured homes are meeting the stated Minimum Property Standards (MPS). Furthermore, FHA has established several programs and policies focused on expanding access to credit for underserved borrowers while also establishing clear guidelines for lenders.

Question Two

How are the middle class first-time homebuyers in Florida, the nurses, teachers, and police officers, who are otherwise creditworthy but may not have the 20 percent down payment, going to buy a home with tightened liquidity and lenders that lack a demonstrated commitment to the FHA program?

FHA only requires a down payment of 3.5 percent for borrowers with FICO scores at or above 580 and a down payment of 10% for borrowers with FICO scores below 580. FHA also offers the Good Neighbor Next Door (GNND) program, through which law enforcement officers, teachers, firefighters, and emergency medical technicians in revitalization areas can purchase eligible homes for half the listing price. In addition to these programs and the FHA's Blueprint for Access initiative, FHA also reduced annual mortgage insurance premiums for its borrowers by 50 basis points (.50%) at the end of January 2015.

Rep. Rubén Hinojosa**Question One**

Mr. Secretary, as you know, there has been much talk about consolidating many or particularly rural housing programs, currently under the USDA, into HUD. Given the difference in the populations served by rural housing programs as compared to HUD programs, as well as the manner in which HUD and the USDA service their respective housing programs, Mr. Secretary, do you think consolidation is a good idea?

The FHA and the USDA's Rural Housing Service are key components in a well-balanced housing market to help provide access to credit. However, FHA and RHS have fundamentally different underwriting models that – if combined – could reduce credit access to folks living in rural areas. The most salient difference between FHA and RHS is the ability of rural borrowers, to utilize the “no down payment” option under RHS's guarantee program. FHA does not have authority to offer this feature, and if consolidated, would limit rural borrowers from closing on their loans without making the required FHA 3.5 percent investment. For many of these rural borrowers, the flexibility to receive an RHS guaranteed loan without a down payment, allows them to invest their capital in other necessities, like farm equipment that traditional FHA borrowers do not normally have to consider within their household financing choices

Question Two

The recent T-HUD appropriations bill (HR 2577) made several large cuts to HUD's programs. How will these cuts to vital programs affect the current and future health and economic prospects of our most vulnerable citizens?

The House bill would hinder the Department's efforts to carry out its mission, and it does not reflect the need for increasing housing assistance and urban investment. A few examples illustrate the harmful effects of the bill.

HUD currently serves 4.6 million households through rental assistance programs, with 3.3 million of them either living in public housing or participating in the Housing Choice Voucher (HCV) program. Of those 3.3 million, the vast majority of households receiving rental assistance are elderly or disabled, or families with children. In fact, elderly or disabled adults represent 51 percent of all households. Families with children represent 36 percent of all households. Additionally, approximately 76 percent of households served are at or below 30 percent of area median income. Thus, even at current funding levels, with 96% occupancy in our public housing program and at 98% budget utilization in our HCV program, HUD is only able to provide rental assistance to 24 percent of the 19 million income-eligible households, or one of every four eligible households. Compared to the President's Budget, the bill would serve approximately 100,000 fewer families.

In addition to core housing assistance programs, we remain focused on revitalizing communities and expanding affordable housing options. Choice Neighborhoods is a critical component of the Administration's place-based efforts to target high poverty communities with joint federal investments, working together with local partners to increase economic activity, improve educational opportunities, leverage private investments, reduce violent crime, and enhance

public health. Over a four-year period, HUD has provided \$350 million for Choice Implementation grants, which have leveraged more than \$2.6 billion of additional public and private investment. Each Choice Neighborhoods implementation grant is approximately \$30 million. The bill would force the program to fund only one small implementation grant and would leave dozens of distressed HUD-assisted communities untouched.

HUD's homeless assistance grants are the primary resource for addressing homelessness in this nation. At a given point in time in January 2014, there were nearly 580,000 individuals and persons in families experiencing homelessness and we know that over 1.4 million individuals and persons in families are served in emergency shelter and transitional housing each year. HUD's homeless assistance funding sets priorities to help communities maximize their resources and provides over \$2 billion in funding to homeless assistance providers. These funds are critical resources that make a difference, as evidenced by the declines in homelessness over the past several years. HUD and its federal partners are striving together to fulfill the Administration's *Opening Doors* goals to end chronic homelessness, veteran homelessness, family homelessness, youth and child homelessness, and set a path to end all homelessness. Communities understand these goals and are proactively seeking to fulfill them. HUD's homeless assistance resources are the backbone for this progress and a decline in these services would be detrimental to the progress that has been made. But more importantly, it would leave people in the most vulnerable situation – homeless individuals and families – languishing on the streets longer. HUD is committed to ending homelessness and these resources are needed now more than ever. Compared to the President's Budget, the bill cuts support for Homeless Assistance Grants by \$295 million, supporting 15,000 fewer homeless or at-risk families with rapid rehousing and 25,000 fewer units of permanent supportive housing for the chronically homeless.

In 2008, Congress established the National Housing Trust Fund (HTF) as a dedicated source of non-appropriated funds to address the affordable housing crisis in the country by providing a new funding opportunity for the development of affordable housing for extremely low-income households. The extremely low-income population is difficult to serve through other existing housing programs that do not provide rental or operating subsidies. HTF is designed to complement the Low Income Housing Tax Credit Program and the HOME program, the Nation's primary affordable housing production programs, enabling deeper targeting and operating subsidies to specific units designated as HTF.

The FY 2016 House T-HUD appropriations bill would add any HTF monies to the HOME program to be used as HOME funds. The Department's FY 2016 budget request projects \$120 million for the HTF. These funds must serve extremely-low income households and will be used almost exclusively for new affordable rental housing for this vulnerable segment of the population that is at risk of homelessness. Given the Federal Government's commitment to ending homelessness, the HTF investment in housing affordable to extremely low-income households is an important component in the overall strategy to end homelessness. Without this targeted funding, approximately 1,000 units of housing for extremely low-income households would not be produced, thereby compounding the challenge of ending homelessness through the provision of affordable housing units.

Question 3

Given that the housing trust fund is the only HUD program solely dedicated to producing affordable housing to extremely low-income households, how will the recent appropriations bill (HR 2577) passed by the house, harm the department's efforts at helping extremely low-income families secure safe and stable homes?

The likely impact of the most recent appropriations for HOME/HTF is a decrease in the number of units that would be affordable to extremely low-income families. Although HOME and HTF have been designed so that the funding sources can be easily combined in rental projects so that some units can be made affordable to extremely low-income households, they are complementary programs. HOME permits a broader range of eligible activities (including owner-occupied rehabilitation and tenant-based rental assistance), serves households who qualify as low-income, very low-income, or extremely low income, and can be more responsive to locally-identified needs since 60 percent of the funds are allocated to local governments. If funding for HTF is under \$1 billion, those funds will serve only extremely low-income families through the production of rental and homeownership housing. Typically, HOME and LIHTC produce rental housing affordable to households in the 50 percent of area median income to 65 percent of area median income range. While many of these units are occupied by extremely low-income households, they are rent burdened at the rents established under these programs. HTF establishes rents that are affordable to extremely low-income families. HTF permits the use of funds for ongoing operating assistance and operating reserves, which make development and operation of these units financially feasible by making up the difference between the cost of operating the unit and the rent received for the unit.

Question Four

During and immediately following the great recession, the Federal Housing Administration (FHA) played a vital role in keeping the mortgage market alive by taking on a counter-cyclical role, significantly increasing its endorsements and market presence when the rest of the market was in full retreat. Do you think criticisms that the FHA has an outsized role in the market and discourages the private sector are disingenuous?

The FHA has served the public consistent with its mission. It stepped in to play a necessary countercyclical role; insuring more than 5.3 million home-purchase loans since 2009 and helping another three million families lower their monthly payments by refinancing. HUD disagrees with the criticism that the FHA has had an outsized role in the market and discouraged private capital.

Furthermore, while it is difficult to measure the cost to society had the FHA not been available in the aftermath of the financial crisis, Moody's Analytics assessed that had the FHA simply stopped doing business in October 2010 like other private mortgage insurers, that mortgage interest rates would have likely doubled; new housing construction would have plunged by more than 60 percent; new and existing home sales would have dropped by more than a third; and

home prices would have fallen another 25 percent below the already-low numbers seen at the high-point of the crisis –and the country would have lost nearly three million more jobs¹.

¹ Griffith, J. (2012) “The Federal Housing Administration Saved the Housing Market” Center for American Progress. https://www.americanprogress.org/wp-content/uploads/2012/10/Griffith_FHA.pdf (p. 4 of the report).

Rep. Peter KingQuestion One

In response to a HUD request, the county included in their Analysis of Impediments an examination of all of its 853 local zoning districts for evidence of exclusionary practices based on race and ethnicity, and found none. Since then, it has made seven more such analyses, each time including consideration of more data, as requested by HUD. The most recent AI was 700+ pages and each time the county has found no evidence of exclusionary practices, a conclusion that has been supported by an independent authority. HUD, however, has disagreed with the county and in 2011 began cutting off housing grants, more than \$20 million to date. Do you know why HUD has summarily rejected each of the eight Analysis of Impediments (AIs) submitted by Westchester County in the past six years to fulfill settlement requirements?

The U.S. District Court for the Southern District of New York, by Judgment and Decision rendered on July 17, 2015, in a lawsuit filed by Westchester County, upheld HUD's findings regarding the inadequacy of the County's AI submission. After a thorough review of the administrative record, the Court found that "[t]he County's bald assertions in its 2013 AI and AI Supplements that the zoning ordinances for the municipalities it examined do not show a disparate or segregative impact on minorities and that they cannot be identified as impediments to fair housing are, as HUD pointed out, not supported by the data. ... HUD has acted with great restraint and has labored, year after year, to assist the County so that it could lawfully receive federal funds." The Court concluded that "the administrative record provides ample support for HUD's rejections of the County's [certifications that it would affirmatively further fair housing] and AIs. Those decisions were the product of expertise, experience, and reasonable judgment. They were not arbitrary and capricious."

By way of background Westchester County had agreed as part of the August 10, 2009 settlement of a False Claims Act case that it would complete an AI acceptable to HUD by December 2009. The settlement, which was entered into pursuant to a court order, and is, therefore, a consent decree, includes the appointment of a monitor to oversee the County's compliance with the settlement. The settlement gave the monitor the authority to resolve disputes before they can be brought to the attention of the District Court. The County availed itself of that process with regard to two issues that were the subject of the County's non-conforming AI at the time: (1) the completion of an analysis of exclusionary zoning and (2) the requirement under the settlement to promote legislation banning source-of-income discrimination in housing. The monitor sided with HUD on both issues. The County challenged the finding that the County Executive was required to promote the source-of-income antidiscrimination legislation to the U.S. Court of Appeals for the Second Circuit. The Second Circuit affirmed the District Court's finding that the County was in breach of the consent decree because of the County Executive's failure to promote source-of-income legislation. The County, however, did not appeal a prior finding by the Magistrate Judge Gabriel Gorenstein's March 16, 2012, finding that the County was required to analyze local exclusionary zoning practices. Instead, the County prepared a submission, but none were consistent with federal law, nor supported by the County's own data.

HUD did not summarily reject any of Westchester County's AI submissions; rather each of the submissions was the subject of substantial and exhaustive review across multiple offices within the Department. For each submission, HUD provided the County with written feedback, explaining what was expected for a compliant AI submission. (See attached HUD letters of December 21, 2010; May 13, 2011; April 20, 2012; April 27, 2012; March 13, 2013; April 26, 2013; May 10, 2013; July 12, 2013; August 9, 2013; April 23, 2014; June 27, 2014; and July 18, 2014). The Department provided the County with notices of the deficiencies and opportunities to make revisions in accordance with applicable laws and regulations. Yet, while the County provided the Department with several AI submissions including many pages of data, the County's analysis did not properly apply federal law and reached conclusions that were not supported by the data. Therefore, HUD found the County's AI submissions to be substantially incomplete and therefore unacceptable.

In addition to letters, HUD provided two eight-hour days of one-on-one technical assistance on June 2-3, 2011 to help the County finalize the AI, followed by additional technical assistance on June 29, 2011, July 2, and 23, 2013, after receiving additional unsatisfactory submissions. At each step, the Department gave the County the opportunity to revise the AI or provide assurances that would have allowed HUD to resume the County's funding. At each step, the County declined to comply with HUD's requests.

The question states that the County's finding that there is no evidence of exclusionary practices is supported by an independent authority. This statement presumably refers to the report by the Pace Law School Land Use Law Center entitled "Affirmatively Furthering Fair and Affordable Housing Under New York and Federal Law and Policies," dated June 29, 2012, submitted by the County with its AI. That report, despite its title, represents largely a discussion of New York State law and does not make nor support any conclusions by the County that there is no exclusionary zoning in Westchester County, and does not explain nor analyze what is required to affirmatively further fair housing under federal law, including the Housing and Community Development Act of 1974, the Cranston-Gonzalez National Affordable Housing Act, and the Federal Fair Housing Act.

Question Two

All CDBG entitlement grantees, such as Westchester County, must certify that they are "affirmatively furthering fair housing" and in order to meet this obligation, grantees must conduct these Analysis of Impediments. What is the average length of the AI document and how often are they rejected? What criteria does HUD use to determine whether or not an AI is acceptable?

The obligation for county or municipal recipients to prepare an Analysis of Impediments appeared in HUD's regulations at 24 CFR 91.225(a). These regulations have recently been updated, and the "Analysis of Impediments" has been replaced by a new "Assessment of Fair Housing". These new regulations are not applicable to the Westchester allocations that are the subject of these questions.

HUD's rules did not specify a particular length, or a particular format. HUD's new affirmatively furthering fair housing regulations do require certain HUD program participants to prepare an Assessment of Fair Housing (AFH) for HUD review and acceptance. See 24 CFR 5.154-5.166.

HUD has developed guidance for the conduct of an AI and the outline of the AI document itself. A link to the Fair Housing Planning Guide is provided at <http://www.hud.gov/offices/fheo/images/fhpg.pdf>. HUD review and approval of Westchester County's AI is a term of the settlement agreement, and HUD used the existing guidance to conduct that review in light of the terms of the settlement.

HUD may conduct a review of a grantee's policies and performance for compliance with the certification that the grantee affirmatively furthers fair housing. HUD may find that the grantee's AI does not serve its regulatory purpose and will specify how the AI needs to be revised. Typically, HUD and the grantee quickly reach a voluntary agreement, and the grantee takes corrective action, and there is no need for enforcement measures.

Question Three

In a public correspondence from HUD to the County written in 2011, HUD officials state that Westchester "must address the County's obligation to affirmatively further fair housing beyond the four corners of the Settlement." Were you aware of that? Does it seem appropriate to you that HUD would be asking that?

The settlement agreement with the County was intended to remedy years of past noncompliance with its duty to affirmatively further fair housing. Part of that agreement is for the County to ensure the development of at least 750 units of affordable housing in specific locations. What the phrase cited in the May 13, 2011, letter was intended to convey was that the duty to affirmatively further fair housing is not limited solely to the siting and development of the units required by the settlement. The purpose of the AI is to address impediments to fair housing broadly, and beyond the siting of those units. The concern within the Department was that the County seemed to be under the impression that completion of these units meant that it has met all of its obligations to affirmatively further fair housing both retroactively and prospectively. In order to receive HUD formula funding, there is a requirement to comply with HUD regulations, and an annual obligation to certify compliance with "Affirmatively Further Fair Housing" requirements. As such, the analysis and the conclusions should have been made more broadly applicable.

Question Four

HUD has punitively relocated \$20 million in Community Development Block Grant funds from Westchester County without any judicial review, as recently determined by the Second Circuit Court of Appeals. Can you explain the justification for what appears to be an arbitrary action?

The purpose of reallocation is not punitive, but to ensure that the funds go to qualified grantees around the country, instead of grantees that have not met grant requirements. See 42 U.S.C. 5306(c); 24 CFR 570.4. The County has extensively pursued judicial review of HUD's

reallocation actions. They have been, and continue to be, reviewed by the courts. With regard to the reallocation of FY 2011 funds, the County filed a complaint on April 25, 2013, requesting the U.S. District Court for the Southern District of New York to stop the reallocation. That lawsuit was dismissed on August 14, 2013 on the grounds that HUD's actions were committed to agency discretion by law. The County appealed that dismissal, and sought an emergency injunction from the U.S. Court of Appeals for Second Circuit, which on September 25, 2013 denied the County's request to stop the reallocation of the FY 2011 Funds. HUD reallocated approximately \$6.7 million in FY 2011 CDBG, HOME, and ESG funds before the appropriations expired on September 30, 2013. After continued efforts to obtain the County's compliance with its AFFH obligations, HUD reallocated another \$5.2 million in FY 2012 formula funding before that appropriation expired in September 2014. The County did not request the District Court to stop the award of the FY 2012 funds to other jurisdictions in 2014 because its Board of Legislators did not authorize the litigation.

On February 18, 2015, the Second Circuit remanded to the District Court the County's lawsuit concerning the FY 2011 funds because \$752,844 in FY 2011 HOME funds were not reallocated and remained available for award to the County. The Second Circuit neither determined that HUD's actions were "punitive," nor found that HUD had done anything improper. The Court simply ruled that the District Court could review HUD's determination, while expressing no view as to the merits. Westchester then filed another lawsuit, on March 17, 2015, seeking to stop the award of its FY 2013 and 2014 CDBG, HOME and ESG allocations to other jurisdictions. This lawsuit was consolidated with the Court's earlier case. On March 27, 2015, the District Court denied the County's application to stop HUD from awarding the FY 2013 and 2014 funds to other jurisdictions, and on July 17, 2015, the District Court issued an 87-page opinion dismissing the County's lawsuit and granting judgment on the merits in favor of HUD. As previously stated, the Court found that HUD's rejections of the County's AFFH Certifications and AIs were amply supported. "Those decisions were the product of expertise, experience, and reasonable judgment. They were not arbitrary and capricious." The County has appealed, and that appeal is still pending before the U.S. Court of Appeals for the Second Circuit. At this time HUD is taking no action to further contract any funds reallocated from Westchester pending further direction from the Federal courts.

Question Five

When the Westchester settlement was announced in 2009, Ron Simms, deputy HUD Secretary at the time said that Westchester was the "grand experiment" and "can serve as a model for building strong, inclusive, sustainable communities in suburban areas across the entire United States." Can you provide an explanation of this "grand experiment" and how this experiment was authorized by Congress?

When the 2009 settlement was signed, there was hope—which seems to be reflected in the statements attributed to the former Deputy Secretary—that the settlement would further a partnership between the County and HUD working toward shared fair housing and community development goals. The language cited is a statement of optimism, but does not have a particular legal or policy implication beyond carrying out the terms of the settlement and compliance with fair housing laws generally.

Question Six

My understanding is that the HUD-appointed monitor for Westchester County has demanded all emails and written correspondence related to the settlement. Furthermore, the monitor is seeking sworn depositions from County Executive and key executive staff to assure compliance, absent a judicial or administrative finding that the County is not in compliance. Are you aware of this? Is this standard procedure at HUD?

The Monitor, whose job is to oversee and enforce the settlement, reports to the District Court. The Monitor acts independently from the Department and is not a HUD employee or representative. The County filed an application in June 2015 to prevent the deposition of the County Executive, which the District Court denied. Consistent with the Court's Orders of August 2014 and June 2015, the deposition of the County Executive occurred in June 2015.

Rep. Bruce Poliquin**Question One**

Secretary Castro, have you read the HUD Inspector General's Report entitled "Monitoring of the Community Service and Self-Sufficiency Requirement" from February 13, 2015?

Yes. The report was issued to HUD's Office of Public and Indian Housing (PIH) for response. PIH concurred with the recommendations and developed an action plan. The Office of the Inspector General (OIG) accepted all of PIH's proposed management decisions on June 8, 2015.

Question Two

Have you discussed the report with the Inspector General?

Yes. An important part of HUD's mission is to create a more accountable and transparent Department. The Inspector General and the Secretary co-authored a joint letter to all employees reinforcing that employees should cooperate with OIG investigations and reviews. HUD regularly works with the OIG to implement the recommendations contained in audits and reports to improve performance.

Question Three

As you know, the Inspector General for your agency found that the department likely paid \$37 million per month to residents who failed to comply with federal guidelines requiring them to take part in community-service or self-sufficiency programs, such as job training or education. Does it concern you that your agency is spending nearly \$450 million per year on non-complaint tenants?

The OIG's report noted that HUD's systems included both improperly reported and noncompliant tenants. The estimate of \$37 million per month and \$450 million per year on non-compliant tenants was a projection based on findings of 23 noncompliant households.

Residents coded as "noncompliant" in the system are not necessarily improperly housed or subsidized. The OIG report highlighted a need for HUD to ensure public housing authorities are properly coding residents in the system for their status under the community service and self-sufficiency requirements. An analysis of system records indicated that some tenants coded as noncompliant were showing wages or other indicators that would exempt them, such as a disability. Resolution of these user data entry errors will require additional training, and could lead to fewer families being reported as noncompliant.

In response to the report, the Office of Public and Indian Housing:

- Notified all public housing authority (PHA) Executive Directors of the audit findings and their responsibilities under the Quality Housing and Work Responsibility Act of 1998 (QHWRA);
- Reviewed the OIG audit findings with PIH field staff, and refreshed them on the requirements outlined in a 2009 policy notice; and
- Fixed error codes in its system to allow accurate reporting of foster and disabled adults.

- Provided the data to PHAs on noncompliant residents and residents coded as exempt, to enable PHA staff to verify data accuracy and compliance before the tenant's next re-exam.

Question Four

The Inspector General's report identified nearly 100,000 non-compliant tenants. Do you think it is fair for a prospective resident to wait for housing on a waiting list while a non-complaint resident has failed to live up to these self-sufficiency requirements?

The OIG projected that there were 106,000 non-compliant tenants based on a targeted sample of 80 households, or 154 residents.

Residents coded as "noncompliant" in the system are not necessarily improperly housed. As mentioned above, the OIG report highlighted a need for HUD to ensure public housing authorities are properly coding residents in the system for their status under the community service and self-sufficiency requirements. In response to the report, the Office of Public and Indian Housing: Notified all public housing authority (PHA) Executive Directors of the audit findings and their responsibilities under the Quality Housing and Work Responsibility Act of 1998 (QHWRA); Reviewed the OIG audit findings with PIH field staff, and refreshed them on the requirements outlined in a 2009 policy notice; Fixed error codes in its system to allow accurate reporting of foster and disabled adults; and, Provided the data to PHAs on noncompliant residents and residents coded as exempt, to enable PHA staff to verify data accuracy and compliance before the tenant's next re-exam.

Question Five

Can you please provide me in detail what, if any, actions your Agency has implemented in response to the Inspector General's report?

In response to the report, the Office of Public and Indian Housing:

- Notified all public housing authority (PHA) Executive Directors of the audit findings and their responsibilities under the Quality Housing and Work Responsibility Act of 1998 (QHWRA);
- Reviewed the OIG audit findings with PIH field staff, and refreshed them on the requirements outlined in a 2009 policy notice; and,
- Fixed error codes in its system to allow accurate reporting of foster and disabled adults.

The next steps will include:

- Updating the 2009 policy notice to clarify the requirements, including those related exemptions;
- Providing training to PHA staff;
- Issuing quarterly summary data and detailed reports to PHAs on resident community service compliance; and,
- Performing compliance monitoring of PHAs and initiating enforcement actions where there is substantial noncompliance.

Providing the data to PHAs on noncompliant residents and residents coded as exempt will enable PHA staff to verify data accuracy and compliance before the tenant's next re-exam.

Question Six

On page 7 and 8 of the report, the Inspector General lists six specific recommendations. Do you agree with each of these recommendations?

PIH concurred with each recommendation and the OIG accepted all the management decisions to resolve the findings.

Question Seven

Do you intend to fully implement each of those recommendations? If not, can you provide me with a specific and detailed rationale?

Yes. PIH's implementation will be monitored by senior staff and the OIG.

Rep. Ed Royce**Question One**

Could you detail what steps your department is taking to ensure that we do not chase major lenders out of the FHA program?

The Federal Housing Administration (FHA) plans to implement an additional national lender performance metric alongside its recent Handbook 4000.1 consolidations and the revised Compare Ratio, as part of its quality assurance framework. This new Supplemental Performance Metric (SPM) will assess lender performance based on the lender's default rate within three credit score bands and compare it to an FHA target rate, rather than to the lender's peers. Introduction of the new performance metric, along with existing metrics and standards, will provide more nuanced insight into a lender's performance and encourage lenders to serve more creditworthy borrowers and continue engaging the FHA insurance program. Specifically, the SPM mitigates lender concern about lending to underserved borrowers and the potentially negative impact on their compare ratio and the Credit Watch Initiative rating of their business, if their peers are not serving similar borrowers and inflating their ratings. The supplemental metric already has been released for lender and public use.

The new quality assurance framework will also provide lenders with greater certainty regarding FHA's expectations for their loan manufacturing processes. This will ensure that more creditworthy borrowers will have access to the mortgage market. Additionally, the FY16 Budget includes a new administrative support fee on lenders that would allow FHA to enhance its business systems; for instance, improving its loan sampling methodology to make sure it is getting a more comprehensive view of a lenders' performance and provide a fair assessment of their participation in the FHA insurance program.

Question 2

What is being done beyond your Blueprint for Access to address lender concerns that the FHA guidelines surrounding the representation and warranty framework create further uncertainty for committed and well-capitalized lenders in the FHA program?

The Blueprint for Access is a comprehensive set of changes that cover loan-manufacturing defects, broader assessment of lender performance across the nation, expansion of loan sampling to a greater portion of the lender portfolio, and consolidating hundreds of mortgagee letters and other guidance into a unified handbook. These significant efforts are in-line with HUD's goal to help originate affordable loans to responsible households, while protecting the integrity of the insurance fund.

Question Three

What is the contingency plan for the FHA if well-capitalized participants in the FHA program continue to exit and the ability of first-time homebuyers and middle class Americans to access credit responsibly is put at considerable risk?

The FHA insurance program is a vital part of the housing finance market. FHA is making every effort through its quality assurance framework and other transparent measures of lender loan performance, to provide clarity to the lending industry and increase access to credit for qualified homebuyers. The retrenchment of some major depository institutions from mortgage lending is not an FHA specific phenomenon. Furthermore, there are additional non-depository lenders stepping into the FHA space and they are held to the same qualification requirements as major banks and if they are issuers of GNMA guaranteed loans, have additional liquidity and capital requirements to do business – ensuring stable and ongoing access to credit.

Question Four

As major issuers have left FHA, have you noticed deterioration in credit quality? What has been the impact on the Mutual Mortgage Insurance Fund?

To date, there has been no discernable impact on the MMIF due to the reduction in volume by major depository institutions. For instance, over the period of April 2014 to April 2015, FHA's annually-adjusted serious delinquency rate for loans in default or those delinquent 90 or more days, dropped from 7.25 percent to 6.28 percent. Over that same time, the percentage of major depository institutions dropped from 25 percent of loan endorsements to 20 percent. Overall, HUD is seeing the default risk of its portfolio drop even during a shift in the nature of loan originators.

Rep. Dennis A. Ross**Question One****How does FHA measure operational effectiveness in the single family area?**

- a. **What performance benchmarks are used?**
- b. **Do those benchmarks include metrics or data used by private sector counterparts like private mortgage insurers?**
- c. **How has FHA performed under those benchmarks?**

a. FHA has several processes in place to measure its operational effectiveness. First, FHA regularly monitors loan origination, performance, and production trends. Through these analyses of credit characteristics and lender activity and performance, FHA is able to track trends and risks, and respond through revised, streamlined, or new policies and programs. Some of this data is publicly available: Monthly Reports to the FHA Commissioner are published [here](#); Quarterly reports to Congress are published [here](#).

Additionally, each quarter, as part of HUD's agency-wide HUDStat, FHA participates in HUDStat. This agency-wide initiative is designed to improve performance on HUD's Strategic Priority Goals, which are established every five years through a process involving substantial public input. Currently, HUD has four priority goals, and Strategic Goal 1 focuses specifically on FHA's role in the housing market, access to credit, and financial health.

b. FHA is a government agency with a public purpose to "create strong, sustainable, inclusive communities and quality, affordable homes for all." As such, HUD's benchmarks will differ from those of private-sector counterparts. However, in tracking progress, FHA does rely on many of the same data sources, including private financial services firms, such as CoreLogic, and public sources, such as HMDA, Freddie Mac, and Fannie Mae.

c. The performance benchmarks FHA uses to track progress toward HUD's Strategic Goals are available [publicly](#), and are listed below:

| | |
|---|--|
| Strategic Objective 1A: Housing Market | <ul style="list-style-type: none"> • Overall market share of private capital, GSEs, and FHA • Percent of FHA borrowers that are first-time homebuyers |
| Strategic Objective 1B: Credit Access | <ul style="list-style-type: none"> • Percent of loans endorsed with credit score < 680 • Percent of loans endorsed with credit score < 680 that evidence successful homeownership over the first five years • HUD's Housing Counseling Program clients served • Percent of housing counseling clients that gain access to resources to improve their housing situation |
| Strategic Objective 1C: FHA's Financial Health | <ul style="list-style-type: none"> • Asset disposition recovery rate • Percent of modifications resulting in re-defaults within six months of closing |

| | |
|--|---|
| | <ul style="list-style-type: none"> • Loss mitigation uptake • FHA insured mortgages benefitting from housing counseling |
|--|---|

FHA has performed at or near target for most of the benchmarks for which targets have been set (versus benchmarks that are for tracking purposes only). For FY 2014, 56.2 percent of endorsed loans had credit scores below 680, which was very close to the 60 percent target. Similarly, HUD served just over 1.3 million housing counseling program clients in FY 2014, which was just shy of the FY 2014 1.5 million target.

Question Two

What are FHA's principal operational challenges in the single family area –

- What plans (including timeframes) are there to address them?**
- What is the project cost of addressing those challenges?**
- How is FHA measuring project success or failure?**

a. FHA's chief operational challenge in the single-family area is an urgent need to modernize the major software and IT platforms used by FHA to endorse FHA-insured loans, and otherwise support 7.7 million FHA borrowers. A related challenge is the need to improve high-quality data capture, which will facilitate FHA's business processes and improve FHA's ability to manage risk while meeting its mission.

FHA has taken active steps to modernize its business processes and technology. In spring 2014, FHA began a modernization plan to strengthen FHA's ability to manage risk, prevent and detect fraud, and improve the ability of lenders and borrowers to do business with FHA. As part of this modernization plan, for example, FHA is on a multi-year schedule to transition its mainframe-based business applications to the cloud with a server-based systems environment.

b. Despite a plan for overcoming its major operational issues, a significant barrier to delivering on FHA's modernization plan is that FHA runs a trillion dollar portfolio on an extraordinarily tight IT budget. From FY2014 through FY2015 (to date), FHA received only \$5 million in development funding for IT modernization, which is less than 0.4004 percent of the \$135 billion of insurance endorsed in FY 2014. In contrast, banks and other large corporations spend upwards of 4 percent to 6 percent of annual revenues to keep pace with technology changes. FHA has proposed an administrative support fee in the FY 2016 Budget that would produce \$30 million in offsetting collections to help overcome these funding issues.

c. FHA will measure project success or failure largely through the measures of operational effectiveness described in the response to the prior question. Additionally, FHA has developed a project plan and milestones for the aforementioned multi-year modernization plan. Finally, FHA's Strategic Plan has specific metrics tracking HUD's progress on Information Management (see page 46).

Question Three

What percentage of current FHA single family activity (not including loan servicing) is performed by contractors –

- a. How is contractor performance measured?**
- b. What has worked well or poorly, and why?**
- c. Are there plans to increase the use of contractors?**
- d. Do you have the necessary authority to increase the use of contractors or use them as needed to meet FHA's operational needs?**

a. Generally, FHA measures contractor performance using Contract Monitoring Plans and Scorecards.

b. The use of scorecards has strengthened FHA oversight of its contractors, allowing FHA to assess differences in contractor performance and to act accordingly.

c. FHA does not have definitive plans to increase the use of contractors, but believes that it is important to maintain the flexibility to do so in response to funding and budget realities and economic changes. The ability to take advantage of technological advancements and the specialized knowledge offered by contractors allows HUD to have a leaner, more effective federal workforce.

d. FHA has the necessary authority but lacks the adequate funding resources to increase the use of contractors, which is why FHA continues to ask Congress to support its Administrative Fee. This fee would allow FHA to hire contractors to improve FHA's risk management capabilities. For example, using contractors to perform mortgage quality control reviews, FHA could ramp up its Quality Control reviews from around 35,000 per year to around 135,000 per year.

Question Four

As you know, outside industry provide the same types of services in the single family marketplace as FHA –

- a. Are there opportunities for collaboration with the mortgage industry related operational infrastructure that could serve as a supplement or alternative to FHA's existing modernization efforts?**
- b. Would you support the creation of a task force similar to the one used by FHA, VA, and the Rural Housing Service (the Joint Federal Housing Agencies Working Group) to examine possibilities of this type of collaboration?**
- c. Do you have the necessary authority to do so?**

a. FHA mortgage insurance supports private lending activity to creditworthy, qualified borrowers who otherwise would not have access to credit in the private marketplace. The mortgage insurance offered by FHA offers a pathway to the middle-class and a chance to build wealth that can be passed down through generations. In all of FHA's business activities, FHA depends on its partnerships with lenders to deliver on its mission, and to do this, FHA regularly communicates and meets with industry representatives.

b. FHA already has strong working relationships with private lenders, insurers, originators, servicers, and other industry groups. As such, FHA does not feel that such a suggested task force is needed to examine industry collaboration.

c. As a federal agency, FHA has the authority to establish committees under the Federal Advisory Committee Act. However, as mentioned, FHA does not feel that a new task force is necessary given its existing strong partnerships and communication lines with the lending and mortgage insurance industry.

Rep. Marlin StutzmanQuestion One

Have you decided whether to revert back to HUD's previous 2012 reserve requirements for multi-family FHA loan programs? If not, what is the timeline for your decision?

Before 2012, the MAP Guide required the property owner to look out 37 years, but because it is so difficult to look that far out, and because there is no standard Project Capital Needs Assessment (PCNA) template or format (which will change once HUD completes and implements the CNA e-Tool), HUD's production offices around the country were not consistent in what they actually required of property owners.

However, HUD is now evaluating the issue in the context of rewriting the entirety of the MAP Guide, HUD's primary guidebook for FIIA multifamily lenders and HUD staff. Numerous public comments were received on this, and other issues, when the draft MAP Guide was published in February 2015. The Department is working diligently to address the issues raised, and will reflect public input, including those on the CNA and Reserves for Replacement (R4R) issues, in the final version of the MAP Guide, which will be published later this year.

Question Two

As you are aware, an October 2014 HUD memo to the RV industry regarding park models had a large and unintended impact on RV manufacturers, dealers, and campgrounds. These industries are a very important to the state of Indiana and I was pleased that when HUD became aware of the scope of the problem, the new procedures contained in the memo were scrapped. Earlier this year, the Department indicated that it would launch a rulemaking to update and modernize the definition of an RV by incorporating recommendations from the Manufactured Housing Consensus Committee. What is the status of that effort? To provide certainty for the RV industry, what is the timeline for establishing a final rule?

The Office of Manufactured Housing has developed a draft proposed rule revising the RV exemption, which has gone through HUD's clearance process. Under general timelines, HUD estimates that the proposed rule will be published in mid FY 2016.

Rep. Scott Garrett

Question One

How many disparate impact investigations, reviews, fact findings or other inquiries of private sector companies or non-governmental organizations are currently underway within the Department? Of these, how many are banks, thrifts, credit unions, insurers, non-governmental organizations or other entities (list the number for each category)?

HUD does not track the application of any particular method of proof that may be considered by investigators or attorneys during the investigation of its cases and therefore cannot report the number of such cases. As noted below, based on the allegations in a complaint, investigators may initially, or during the course of the investigation, consider one or more methods of proof, including a disparate impact theory, depending on the evidence that is collected about the alleged discriminatory practices and the defenses that are raised. If a determination of reasonable cause is made and a charge of discrimination issued, the case may be adjudicated under one or more methods of proof.

Question 2

Since January of 2009, how many disparate impact cases have been settled, including those that have had either fines, deferred prosecution agreements, or any other judicial, administrative or other form of settlement of any investigations, review, fact findings or other inquiries. Of these, how many are banks, thrifts, credit unions, insurers, non-governmental organizations or other and list the number for each category.

After a complaint is filed with HUD alleging a violation of the Fair Housing Act, and before HUD issues a charge of discrimination, HUD is required, to the extent feasible, to engage in conciliation. The resulting conciliation agreements describe the allegations made in the complaint and the remedy provided through settlement; they do not identify the method or methods for proving a violation of the Fair Housing Act that might have been used had the case not settled. HUD therefore cannot provide a count of the number of cases that, if they had not settled, would have been adjudicated using the disparate impact method of proof.

Question 3 (contains multiple parts)

- a. Please outline the process that the Department of Housing and Urban Development (HUD) adheres to when alleging disparate impact against individuals and entities.**

When pursuing enforcement actions, HUD does not allege disparate impact, it alleges discrimination. Disparate impact is simply one method of proving discrimination under the Fair Housing Act.

When the facts alleged in a complaint suggest that disparate impact may be an appropriate method of proof to consider, HUD will follow the elements set forth in its Discriminatory Effects rule, at 24 CFR 100.500, to guide its investigation. A preliminary step in conducting such an investigation is to identify the practice or practices of the respondent that are being challenged. The investigation may consider statistical and other evidence to determine whether the practice caused, or predictably will cause, a

discriminatory effect because of race, color, national origin, religion, disability, sex, or familial status. If the evidence does not establish such an effect, the matter will no longer be pursued under a discriminatory effects theory and will be closed if there is no other basis for finding discrimination. However, a discriminatory effect alone is not sufficient to prove discrimination under Fair Housing Act, so even if the evidence does indicate a disparate impact or perpetuation of segregation, the investigation does not end. Evidence will be collected regarding the respondent's justification for the practice. The investigation will also consider whether the respondent's interest could be served by a practice that has a less discriminatory effect.

b. How does HUD define disparate impact?

In 2013, HUD published a rule formalizing the method of proving discrimination under the Fair Housing Act based on disparate impact. HUD's Discriminatory Effects Rule provides that a practice that caused or predictably will cause a discriminatory effect on a group of persons or that perpetuates segregation because of race, color, national origin, religion, disability, sex, or familial status, violates the Fair Housing Act if it is not justified. A discriminatory effect is unjustified, and therefore unlawful, if the practice is not proven to be necessary to achieve a substantial, legitimate, nondiscriminatory interest of the respondent or if it is proven that there are less discriminatory ways to serve the respondent's interests.

c. How does HUD determine that disparate impact discrimination has occurred and can this determination vary from case to case or by locality? Are there cases in which disparate impact can be alleged in one locality but not in another locality even if statistical housing and lending outcomes for protected classes in both localities are the same? What are the determining factors that lead to different determinations for alleging disparate impact discrimination in different localities?

As with any claim of discrimination under the Fair Housing Act, a claim of discrimination relying on the disparate impact method of proof will depend on the facts of that particular case. Under HUD's Discriminatory Effects Rule, the Act is violated when a respondent's practice caused or predictably will cause an unjustified discriminatory effect. Under the rule, a discriminatory effect is unjustified, and therefore unlawful, if it is proven that the practice is not necessary to achieve a substantial, legitimate, nondiscriminatory interest or if it is proven that there is a less discriminatory way to serve the respondent's interest.

If the facts in one locality are identical to those in another, then the outcome of any disparate impact analysis will be the same. However, all features of two localities are rarely identical. A disparate impact analysis depends on a myriad of factual variables other than statistics, so it is possible that a statistical disparity may support a finding of liability in one locality but not another.

Question 4

Who within HUD makes the determination for alleging and prosecuting disparate impact discrimination?

HUD's Office of Fair Housing and Equal Opportunity (FHEO) investigates complaints of discrimination that are filed with HUD. If the facts alleged in the complaint or identified during investigation so warrant, HUD will consider the disparate impact method of proof. Upon completing the investigation, if the case has not conciliated, FHEO determines whether reasonable cause exists to believe that a discriminatory housing practice occurs or is about to occur. If no reasonable cause is found, the complaint will be dismissed. If reasonable cause is found and the Office of General Counsel concurs, counsel will issue a charge of discrimination. If, however, the matter involves the legality of any state or local zoning or other land use law or ordinance, the case will not be charged and instead will be referred to the Department of Justice for appropriate action. When a charge of discrimination under the Fair Housing Act is filed, either the complainant or the respondent may elect to have the claims decided in a civil action in United States District Court; if neither does so, the case will be tried in an administrative hearing before a HUD administrative law judge.

Question 5

Does any official at HUD consult with the White House when determining to pursue and prosecute a disparate impact discrimination case or settle? If so, what HUD and White House official or officials are included in this consultation? What factors are considered when making the determination to pursue prosecution or settle?

HUD does not consult with White House officials when deciding whether to file, conciliate, or charge a Fair Housing Act case, regardless of the method of proof involved. Complaints are accepted for filing and investigation when HUD establishes jurisdiction under sections 803-806 or 818 of the Fair Housing Act. HUD conciliates all Fair Housing Act complaints in accordance with the requirements of sections 810 of the Fair Housing Act; 24 C.F.R. Part 103, Subpart E ["Conciliation Procedures"] of HUD's Fair Housing Act regulation; and Chapter 11 of FHEO's "Title VIII Intake, Investigation & Conciliation Handbook."

