HUD ACCOUNTABILITY

HEARING

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CONTENTS

HUD ACCOUNTABILITY

Wednesday, July 13, 2016

U.S. House of Representatives,
Committee on Financial Services,
Washington, D.C.

The committee met, pursuant to notice, at 10:06 a.m., in room 2128, Rayburn House Office Building, Hon. Jeb Hensarling [chairman of the committee] presiding.

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

Chairman Hensarling. The Financial Services Committee 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, "HUD Accountability."

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

There has probably been no greater public policy mistake in housing than Washington trying to put people into homes they cannot afford to keep. It was clearly the number one reason our Nation suffered the second worst financial crisis in our history.

Not 3 weeks ago HUD announced, after secret deliberations, that it again wants to double down on these failed policies and breach its fiduciary duty to hardworking taxpayers while doing so. Specifically, HUD has now announced what it describes as the "most significant changes ever to the Distressed Asset Stabilization Program, known as DASP."

DASP, as most committee members know, is a program that allows a pool of delinquent mortgages headed for foreclosure to be sold competitively on the open market. This is done in order to minimize losses to the FHA's Mutual Mortgage Insurance Fund, or MMIF.

Bidders are encouraged to work with borrowers to help bring the loan out of default. This is a challenge since the average loan in the pool has been in default for almost 2½ years and has already been subject to numerous foreclosure mitigation measures.

After no notice, no public comment period, no public debate, and no transparency, HUD announced it will no longer maximize taxpayer recovery by selling these mortgages through an open and competitive bidding process. Instead, it will offer lower-price, "preferential bidding options" to "nonprofits and local governments," or, more accurately, as many of us believe, to special interest groups and known political allies.

Additionally, as part of HUD's 11 specific changes to DASP, private purchasers will now be punished if they get stuck with a vacant property, thus assuring a decrease in private sector bidding. As a result, taxpayer recoveries through the DASP will be reduced, further exacerbating the financial stress placed on the FHA, which, lest we forget, recently required a $1.7 billion taxpayer bailout.

What we are witnessing is nothing less than the gradual transformation of FHA from a mutual insurance program designed to help low-income, moderate-income, and first-time homebuyers, into a social program designed to help special interest groups.

Why has all of this happened? Well, we had a recent report on April 12th. Politico published a story entitled, "Progressive Groups Target Julian Castro." It stated in part, "A coalition of progressive groups are launching a preemptive strike against Castro aimed at disqualifying him from consideration to be Hillary Clinton's running mate, attacking Castro on the relatively obscure issue of his handling of mortgage sales."

Just a few weeks later a story appeared in the very same publication entitled, "Veepstakes: Julian Castro Moves to Shore Up a Political Weakness." The story goes on to say, "Julian Castro's HUD announced significant changes Thursday to a Federal program that sold delinquent mortgages to private investors—a move that mollified progressive critics who threatened to undermine his Vice Presidential prospects."

Mr. Secretary, these are clearly disturbing reports, to say the least, and I hope and trust you will address them in your statement today.

To conclude, it is surely worth repeating that there is no better foreclosure mitigation program than a job with growing wages and a bright future. Also, a bankrupt FHA and a bankrupt America can help no one stay in their home, much less afford them an opportunity to buy one in the first place. This attack on FHA's insurance fund must be stopped.

I now yield 5 minutes to the ranking member for an opening statement.

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

And thank you, Secretary Castro, for joining us today despite being called by the Majority on such short notice and in such an unprecedented and discourteous way.

With this hearing, committee Republicans are hijacking a very important topic in order to launch attacks on the Secretary and the Department rather than substantively examine the issues impacting working people in this country.

Through the Distressed Asset Stabilization Program, or DASP, the Federal Housing Administration sells the mortgages of underwater borrowers to private enterprises and nonprofits as a way to both help low-income borrowers struggling to pay their mortgage and minimize losses to the Mutual Mortgage Insurance Fund. Now, 98 percent of the loans sold so far have been auctioned off to firms like private equity funds; the rest have been sold to qualifying nonprofits with substantial experience in community development.

The Administration, recognizing that this situation may not represent the best solution for borrowers, has proposed some modest changes to help ensure that individuals are better protected when their loans are sold and to help level the playing field when community-based organizations want to place bids. Apparently my Republican colleagues don't like it when the Administration looks to support consumers.

In fact, it seems as if the Republicans would like the FHA to act like the same private mortgage companies that cratered the economy and focused exclusively on the bottom line. But we know that is not how DASP or FHA was designed.

The FHA has an obligation to the borrowers it serves, and that includes helping them stay in their homes. Nonprofit organizations are often best positioned to help borrowers do just that, but so far they have been kept on the sidelines of the DASP program. Instead, loans have consistently been sold to big business, even when news reports have indicated they are doing a poor job of providing loan modifications to borrowers.

Further, the majority of loans sold through DASP are attached to properties in communities particularly hard-hit by the housing crisis or that are home to racial and ethnic groups that have lost a disproportionate share of wealth throughout the foreclosure crisis. So we must be mindful of neighborhood stabilization because the outcomes for these loans could make a significant difference in the pace of recovery for these vulnerable communities.

That is why many stakeholders and Members of Congress, including several here on this committee, have been requesting changes to DASP that would increase nonprofit participation and help protect borrowers.

I would like to point out that we do not yet know the full scope of the changes proposed by HUD, since we all only have a preview of the changes to come in the next sale of loans. But from what we do know, the changes planned are sensible and incremental.

So at best this hearing is premature and at worst it is an attempt by Republicans to simply score political points for attacking the Obama Administration while protecting the interests of the one percent.

I would also like to point out the urgency with which the Majority responded to the possibility that private investors might lose out on a small share of loans. This is our last week in session, and we are rushing to hold hearings on how to maximize Wall Street profits at the expense of struggling homeowners.

Is this your poverty agenda, Mr. Chairman? Because we have not held a single hearing this Congress on issues that actually warrant our urgent attention such as the crisis of homelessness, or communities that are still struggling to recover from the Great Recession, or on discrimination occurring at private banks.

What is more, Republicans continue to burden agencies with never-ending document requests and abusing their unilateral self-granted subpoena power. Make no mistake: This is not only an effort to impair HUD and other agencies from doing their jobs, but also to distract the American public from the real policy issues these agencies are working to address today.

So, Mr. Chairman, I mentioned whether or not this is your poverty program because the Republican Caucus and the leadership have made a big issue out of having a poverty agenda. They have held a town hall; they have gone on national press. And I just want to know, is this your idea of a poverty program?

Chairman HENSARLING. The time of the gentlelady has expired.

Ms. WATERS. 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.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

And welcome, Mr. Secretary.

Mr. Secretary, we have talked candidly about the many programs at your Department that don't work and are in desperate need of reform. This committee's intent in passing H.R. 3700 was to help you transform some of those programs, and while I appreciate your continued strong support on H.R. 3700, I fear that you are now presently focusing your time fixing a program that isn't broken.

The Distressed Asset Stabilization Program is working, by your own admission. I think even your own statement today will say that. Since 2013 alone, FHA has sold more than 9,200 nonperforming loans. Your own estimates show DASP net recoveries over that period of $2.2 billion, or about $2,400 per unit, over what would have been collected without the program.

The change your Department recently announced will pose a threat not just to American taxpayers but to first-time and low-income borrowers who depend on a strong FHA and Mutual Mortgage Insurance Fund. That is the same fund that taxpayers bailed out just a few years ago and it has only recently inched above the statutory capital ratio, while reserves are still well below the recommended level.

Your changes undercut a competitive private market that has served homebuyers and the taxpayers and the public well. All of this is in direct contravention to the mission of DASP.

According to your Department, the program is "one of a suite of position programs that aids in fulfilling the Secretary's fiduciary responsibility to ensure that the MMIF remains financially sound." With these changes you are, in my opinion, picking winners and losers and are turning an insurance program into a social welfare program. In doing so, you are endangering those families whom we are statutorily required to help.

We are left to wonder why these changes have been made and what policy analysis has shown that keeping people in homes they can't afford at the expense of other homeowners is a good idea.

Mr. Secretary, we look forward to a better understanding of your decision-making process, and I thank you for appearing today.

Mr. Chairman, with that, I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

Today, we welcome the testimony of the Honorable Julian Castro, Secretary of the U.S. Department of Housing and Urban Development. Secretary Castro has previously testified before our committee so I believe he needs no further introduction.

Mr. Secretary, without objection, your written statement will be made a part of the record.

And Mr. Secretary, you are now recognized for 5 minutes to give an oral presentation of your testimony. Thank you.

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

Secretary CASTRO. Chairman Hensarling, Ranking Member Waters, and members of the committee, thank you for allowing me this opportunity to discuss an initiative that is making an important, positive difference for American homeowners and their neighborhoods: HUD's Distressed Asset Stabilization Program, also known as DASP.

I look forward to a good conversation this morning, but first I would like to express my condolences to the Members whose constituents were most affected by the tragedies our Nation endured last week in Baton Rouge, Louisiana; in Falcon Heights, Minnesota; and most recently in Dallas, in my home State of Texas. The HUD team and I join with you in mourning the lives, both civilian and law enforcement, that were lost.

My colleague, Attorney General Loretta Lynch, recently remarked that the response to these tragedies must be "calm, peaceful, collaborative, and determined action," and the Obama Administration is eager to work with you to help make our communities safer for every citizen, including our police officers, while also ensuring that every American's civil rights are protected.

We come together this morning to discuss an altogether different, yet essential, public mandate: strengthening the Nation's housing market in ways that protect homeowners, improve neighborhoods, and boost the United States economy.

Without question, our Nation's housing market has made remarkable progress since the Great Recession. Real residential investment, which includes new housing construction and home improvements, has grown by more than 8 percent for 6 straight quarters and continues to far outpace overall GDP growth. Sales of existing homes have climbed to their highest level in more than 9 years. And homeowners' equity continues to show sharp gains and is now nearly $7 trillion higher than when President Obama took office.

And I am proud that HUD has been a part of this turnaround. Our agency has taken a number of steps to ensure that the housing market remains a bright spot in our economy.

One important step has been creating DASP. It is innovative; it helps homeowners avoid foreclosure, it helps preserve strong neighborhoods; and it boosts the health of the Mutual Mortgage Insurance Fund.

Since its launch in 2012, DASP has helped more than 10,000 families who were on their way to foreclosure remain in their homes, and it has also helped another 15,000 homeowners avoid foreclosure altogether. That has had a major stabilizing effect for some of the communities that were hardest hit by the Great Recession, and it is a direct result of our efforts over the last 4 years to continually improve DASP's effectiveness.

Since the Program's launch, HUD has modified DASP many times. We have implemented a 12-month moratorium on foreclosures, strengthened DASP's neighborhood stabilization requirements, and made the Program more transparent and more competitive. In fact, no DASP note sale has been the same. All of the Program's changes have helped ensure that it continues to meet the needs of our growing housing market.

The same is true of the improvements we announced last week, including those aimed at encouraging more nonprofit investors to join DASP.

Some have tried to single out these changes as being politically motivated. They were not.

Many nonprofit groups have decades of experience in stabilizing neighborhoods, and HUD wants to put that expertise to work on behalf of the homeowners and communities who need it most while also maintaining the rigorous standards that have made DASP a success for the MMI Fund. And we have been engaging nonprofits since 2013.

All of the program changes we will discuss today were designed with input from a broad range of stakeholders. All were assessed for how well they would fulfill our goal of strengthening neighborhoods. And all have been implemented with this committee's counsel in mind, including your direction, Chairman Hensarling, that any changes to DASP further protect the health of the MMI Fund. I am proud of these changes.

I am also proud that the FHA has constructed a very sound program. In the last fiscal year, DASP recoveries were 16 percent higher than recoveries on assets conveyed through the traditional foreclosure action or real estate owned process. And when you consider that DASP has contributed more than $2 billion to the MMI Fund above what would have otherwise been collected, it is clear that this innovative program is a significant reason why the Fund's capital reserve ratio is now above 2 percent for the first time in 6 years.

DASP was created during a period of economic turmoil that was unprecedented in our lifetimes. Since its launch, the Program has helped preserve the dream of homeownership for thousands of families who had exhausted every other tool at the Federal Housing Administration's disposal, while also strengthening neighborhoods all across our Nation and protecting taxpayers.

Ladies and gentlemen, this is a good example of how public-private partnerships can and should work. Thank you, and I look forward to answering any questions you may have.

[The prepared statement of Secretary Castro can be found on page 60 of the appendix.]

Chairman HENSARLING. Thank you, Mr. Secretary.

The Chair now yields himself 5 minutes for questions.

Mr. Secretary, as you know, 12 USC 1711 requires the FHA's Mutual Mortgage Insurance Fund to maintain a minimum 2 percent capital reserve ratio. Correct?

Secretary CASTRO. That is true.

Chairman HENSARLING. And isn't it true that for 6 years running, including 2 years on your watch, the MMIF illegally dropped below its statutory minimum? Do you not acknowledge this, Mr. Secretary?

Secretary CASTRO. That is not accurate.

Chairman HENSARLING. Well, isn't it true that in September 2013, due to its deteriorating fiscal condition, the MMIF received a $1.7 billion mandatory appropriation? Isn't that correct, Mr. Secretary?

Secretary CASTRO. Mr. Chairman, I think you said that for 2 years under my watch, it was underneath 2 percent. That is not correct.

Chairman HENSARLING. Okay. Was it ever under its legal minimum on your watch?

Secretary CASTRO. I testified in early 2015 that within 2 years from that time we would get back over 2 percent.

Chairman HENSARLING. It is a simple yes-or-no question: Did it drop below its legal statutory minimum on your watch?

Secretary CASTRO. I guess the simple answer is that we are over 2 percent now.

Chairman HENSARLING. I think the simple answer is that you are avoiding the question, Mr. Secretary. Did it receive a $1.7 billion mandatory appropriation in 2013?

Secretary CASTRO. In 2013, it did receive a mandatory appropriation.

Chairman HENSARLING. Okay. Thank you, Mr. Secretary.

You may not like the term, but most of us view that as a taxpayer bailout. It was the first time in history, if I recall correctly, Mr. Secretary.

And isn't it true that under 12 USC 1708 you have a "duty" to ensure that the Mutual Mortgage Insurance Fund remains financially sound? Isn't that correct, Mr. Secretary? Do you—

Secretary CASTRO. I certainly take that fiduciary duty very—

Chairman HENSARLING. Okay, you acknowledge that is written into statute. So against the backdrop of an insurance fund that was illegally undercapitalized for 6 years that needed an almost $2 billion taxpayer bailout, a fund that you legally have a fiduciary duty to ensure remains financially sound—and this is important because millions rely upon this fund. A bankrupt FHA, an insolvent MMIF is helping no one get into a home.

Anyway, against this backdrop you have now announced a new policy to give noncompetitive, no-bid, sweetheart deals to so-called community groups. And I guess, Mr. Secretary, my question is, in so doing what internal and external studies did HUD consult to ensure that these policies will not adversely impact the MMIF? Your testimony says that there are metrics, economic analysis, and studies that were used, but can you name two of them that you read and consulted and relied upon before making this decision?

Secretary CASTRO. Thank you. That is a long question, Congressman.

Chairman HENSARLING. Well, it is a simple question. Can you name me two studies that you relied upon? And if so, will you make them available to this committee?

Secretary CASTRO. As I stated in my written testimony, Mr. Chairman, we have made many changes to the DASP program since its inception, and what has happened is that after every note sale, our FHA staff has taken input from the investors, from stakeholders obviously, folks who have an opinion, including Members of Congress.

Chairman HENSARLING. I am just curious, Mr. Secretary—studies that you specifically relied on, because the buck stops with you. Can you name two studies you relied upon? Because it seems to be common sense that if you are no longer going to allow the highest bidder to buy these properties, by definition there has to be an adverse impact on the MMIF, and you are saying there is not.

Secretary CASTRO. What I am telling you is that, in fact, our folks rely on the input of stakeholders; they rely on the investors who bid on these properties; and, of course, they speak to Members of Congress and they look at different analyses—

Chairman HENSARLING. So you heard from the investors who have bought these properties. You consulted with them prior to making these changes. Is that true?

Secretary CASTRO. What was your question?

Chairman HENSARLING. Did you consult with the investors prior to making this change?

Secretary CASTRO. Absolutely. After the last note sale—and this has been an ongoing process—

Chairman HENSARLING. Okay. I have a list of the entire historic list of investors. Did you consult with Neuberger Berman, Credit Suisse, PIMCO, Bayview, Lone Star, Angelo Gordon? Can you tell me which ones?

Secretary CASTRO. Our FHA staff—not me personally, our FHA staff—has taken input for several years, including after the last note sale in the first quarter of Fiscal Year 2016 from an entire variety of investors, Members of Congress, and advocacy groups in crafting this policy. We also modeled this with the Office of Management and Budget, and so—

Chairman HENSARLING. Okay. Did you accept any of their feedback, Mr. Secretary?

Secretary CASTRO. —this is a very well-thought-out policy—

Chairman HENSARLING. Did you accept any of the feedback of the investors?

Secretary CASTRO. The FHA staff—again, this is done by the FHA staff—of course accepts the feedback of investors, of Members of Congress—

Chairman HENSARLING. Do you know specifically what feedback they did accept?

Secretary CASTRO. I think a number of these changes had been suggested by different groups, whether it was the National Association of REALTORS® or others, for several years.

Chairman HENSARLING. Okay. But we would like for you to make available to this committee what the input was and what you accepted. My time is running out, but—

Secretary CASTRO. Actually, Mr. Chairman—

Chairman HENSARLING. —I don't understand how in your testimony—

Secretary CASTRO. —we have already begun doing that. Congressman Duffy made a request for information and we have submitted 1,900 documents on very short notice.

Chairman HENSARLING. I know, and—

Secretary CASTRO. In fact, 2 business days of notice, and we have already given 1,900 documents.

Chairman HENSARLING. Actually, Mr. Secretary, I wrote to you in March and told you if you made these changes we would have a hearing. You have had several months of notice.

And I don't understand how you can say in your testimony that these changes—"the most important of which is increased competition and therefore maximizing recoveries for the Federal Government—maximize recoveries for the Federal Government when you no longer take the high bidder. You claim this has increased competition, but I don't understand how. I don't understand it, Mr. Secretary.

My time has expired.

The ranking member is now recognized.

Ms. WATERS. Thank you very much.

Mr. Secretary, I welcome you and I really mean it. Obviously you are under attack. You are under attack by the chairman of this committee and he won't even allow you to answer the questions that he is asking you. And he started out on a subject that had nothing to do with what he said he wanted to have you before this committee about.

So let me give you an opportunity to talk about what they claim they want to hear about, and that is how the DASP program is run, what you have tried to do with it. I yield the balance of my time to you to be able to be treated fairly.

Secretary CASTRO. Thank you so much, Ranking Member Waters.

As you know, we do have a fiduciary duty to the MMI Fund. That fiduciary duty at FHA also includes the duty to the borrowers that we serve through FHA-insured loans.

The DASP program is an innovative way where there is an alignment of interests where, if it is done well, we can actually end up keeping more people in their homes, avoiding foreclosure, and by doing that, help preserve strong neighborhoods—the evidence bears this out—and also help build up the Mutual Mortgage Insurance Fund. So we want both of those goals to happen.

And since this program began several years ago, after every note sale the FHA staff has met with the investors, and they have taken input from Members of Congress, and from different advocacy groups. They created what they call a parking lot of ideas of proposed changes and then have implemented some of those changes over time.

So that is what we are trying to do. We are trying to make sure that more homeowners can stay in their homes—we avoid foreclosure, and also that by gaining more revenue through the DASP program than we would if we went the traditional route of REO, we are actually able to build up the Mutual Mortgage Insurance Fund.

We have been very successful with regard to building up the Mutual Mortgage Insurance Fund. In fact, through this DASP program we have returned $2.2 billion over and above what we would have if we had gone down the traditional REO route. However, we feel like there is work to do with regard to making sure that we keep more people in their homes.

Those two things, even though they may seem like they are opposed to each other, actually oftentimes those interests are aligned. If we can keep more people in their home instead of going into the foreclosure process, then those private sector investors can actually make more money, a greater profit, and families can stay in their homes.

So just to give you an example of this, of why we began to engage nonprofits, we want to make sure that we have organizations that are concerned—as concerned as possible about keeping folks in their homes and also strengthening neighborhoods. As you know, there are nonprofits that are very close to the ground, that have a connection to the community, that take a particular interest in a note sale in one city, one community, and want to do everything they can to preserve strong neighborhoods.

Our preliminary data has shown that at least our biggest nonprofit who has been bidding has been 3 times as successful at keeping people in their homes as the average private investor. So you can see this is why we have an interest in this pilot project in expanding the number of nonprofits in this program.

And again, these interests don't diverge. Oftentimes the most profitable thing that can happen in this process is for somebody to stay in their home instead of going through the foreclosure process.

As I said, we are excited about these changes.

The last thing I would say is that we should put this into some context. Of all of the delinquent properties that are disposed of, DASP takes about 20 percent of those. And out of 106,000 notes that have been sold, 2,000 of those have been sold to nonprofits.

Ms. WATERS. My goodness. Mr. Secretary, I am looking up on the screen. Are you telling me that an attempt to include nonprofits in the opportunity to bid is maybe all that we are trying to do? And is it true that 98 percent of the loans auctioned through DASP have gone to these private investors, the big boys on Wall Street, and only 2 percent have gone to the nonprofits?

Secretary CASTRO. Yes. About 2,000 loans out of 106,000 have gone to nonprofits.

Ms. WATERS. And now my Republican friends are crying because their friends on Wall Street don't have 100 percent?

You don't have to answer that. I said it.

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.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

Secretary Castro, as you were going through some of your explanation to the chairman a minute ago, you made the comment that you also consulted with Members of Congress with regards to this program. Who were the Members of Congress with whom you consulted?

Secretary CASTRO. We would be glad to get you a list of those, and I imagine that it is probably well included in the request that Congressman Duffy has made.

Mr. LUETKEMEYER. Wait a minute. Time out. Now, my understanding was that these are Members of Congress whose advice you took on how to structure this program. Can you give me one name?

Secretary CASTRO. Sure. Mr. Capuano, I know—

Mr. LUETKEMEYER. Okay.

Secretary CASTRO. —has spoken to our staff and been very vocal about this program.

Mr. LUETKEMEYER. Now we know who—

Secretary CASTRO. Again, Congressman Luetkemeyer, I don't mean to—let me be clear: I am not saying that I have personally spoken to each and every one of these Congressional Members.

Mr. LUETKEMEYER. I was just wondering—

Secretary CASTRO. However, our staff has.

Mr. LUETKEMEYER. I am just trying to figure out who are your advisors here from the standpoint that—is anybody on this side of the aisle an advisor to you on this?

Secretary CASTRO. Frankly, the letter that we got from the chairman was very helpful in constructing this program.

Mr. LUETKEMEYER. Okay.

You also made a comment a minute ago that you have a fiduciary responsibility to the borrower. Can you point to the law and tell me where you have a fiduciary responsibility to the borrower?

Now, you have a fiduciary responsibility to the taxpayer to make sure these loans are administered correctly, to make sure the taxpayer's exposure is minimized. But where do you have a fiduciary responsibility to the borrower?

Secretary CASTRO. I agree with you that we have a fiduciary responsibility to the Mutual Mortgage Insurance Fund, and in this program we see two goals based on the 1999 Act that created Section 601, which spoke about both return to the Mutual Mortgage Insurance Fund and also trying to keep borrowers in their homes and to promote strong neighborhoods. And that was part of the report that came out of the legislation that created 601, and so we see this—

Mr. LUETKEMEYER. That is not in the statute.

Secretary CASTRO. —as a responsibility that we have to do both of these things.

Mr. LUETKEMEYER. Mr. Secretary, that is not in the statute, so that is stretching, again, the intent of the law beyond its intention.

We are talking about—I think in your testimony here one of my questions that I was coming up with was what do you anticipate the percentage of nonprofit participation to be after your new rules are promulgated? In your testimony you indicate that there is a target of 10 percent. Is that correct?

Secretary CASTRO. That is correct.

Mr. LUETKEMEYER. Okay. Why do you believe that you don't get 10 percent right now?

Secretary CASTRO. That is a great question. There are different reasons for that.

Number one, there aren't that many nonprofits right now that have the capacity to bid on a high number of loans. Most of the nonprofit bidding has been on a smaller number of loans.

And so one of the changes that we have made, introducing the ability of nonprofits to build in the national pool by what we think is an innovative way that won't prejudice the sale with respect to for-profits, is to allow them more opportunity to bid in the national pool with up to 5 percent of the loans in that pool.

Mr. LUETKEMEYER. Okay.

Secretary CASTRO. So the answer to your question is that we think that this new opportunity is going to allow more nonprofits to shape their bids so that they can effectively compete in a better way.

Mr. LUETKEMEYER. Mr. Secretary, I really don't care who bids on these loans. I really don't. I think if it is for-profits or nonprofits, as long as you vet them and it is a serious investor that can do a good job of working with the homeowner and recouping and making this all work, I really don't care one way or the other.

The problem I have, though, is whenever you structure the rules so that you wind up with a noncompetitive bidding process. I don't understand—we are rigging the system here.

Secretary CASTRO. Not at all.

Mr. LUETKEMEYER. And you have in the past here a program that works. Your own documents show that you recovered $2.2 billion more—$24,000 per unit more than what you anticipated doing. Have you done any studies to figure out how much less you are going to make as a result of noncompetitive bidding?

Secretary CASTRO. As I said, there was modeling that was done by OMB that found there would be no impact to the fund. In fact, just yesterday the Urban Institute, which the chairman cites in his letter as an authority, put out a note that said they don't believe there is going to be an impact to the fund.

And so we believe that we can accomplish both of these goals: that we can build up the Mutual Mortgage Insurance Fund; and keep more people—more families in their homes.

Mr. LUETKEMEYER. Mr. Secretary, I hope you are right. I have serious, serious doubts.

Competition is what drives those numbers. It is what has given you the ability to recoup the dollars that it takes to get your capital reserve up, and now you are doing the very thing, in my mind, that is going to undercut the program and hurt its viability and in the long run hurt your ability to increase your capital ratio.

I yield back. Thank you.

Chairman HENSARLING. The time of the gentleman has expired.

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

Mr. CLEAVER. Thank you, Mr. Chairman.

First of all, Mr. Secretary, let me express my gratitude for your opening comments. Like you, Mr. Capuano and I were mayors. I had about 1,000 police officers in Kansas City during my term as mayor, and it is amazing that these police officers put themselves out every day. They are up at night so we can sleep in peace.

And so I appreciate that as well as the fact that we have to do something about the lack of a relationship between minority communities and police. It is in the best interest of our country. And if we can eliminate the enemies within, we will frustrate the enemies without. So thank you for that sensitivity.

And having some experience with the Urban Corps, being mayor of Kansas City—and you have been there a number of times—we have 1,000 vacant properties in a 150-block area. One thousand. The reason is many of those homes were foreclosed and ultimately when they sat there a while we had to demolish them. So we have these vacant properties, which is a sore on the urban landscape.

Had we been able to get those homes in the hands of a CDC or some kind of not-for-profit we could—number one—we might have been able to save the family; and number two, we could have saved the home before it deteriorated to the point where now the rehab cost exceeds the cost of the property in that location. So my appreciation is the fact that this program is trying to prevent those things from happening that I guess anybody in here who represents an urban core can see every single day. So I appreciate that.

Now, the other thing, any time I see an article about HUD I read it, obviously for a lot of reasons. And the articles that the chairman mentioned, I never saw a quote from you in those articles.

Did you secretly go and ask for an article to be written? Or did you send some minions to ask for an article? You can answer. I know—

Secretary CASTRO. Of course we cannot control the way that these things are covered. We are focused on good policy—good, sound policy.

Mr. CLEAVER. I want to associate myself with my friend from Missouri who said I don't care who gets the purchases. I agree. I am not sure that is anything we ought to focus on as long as it is done fairly and in harmony with the laws and the rules and regulations.

And in your 2016 progress report it is noted that for-profits purchased 98 percent of the loans through the auctions. And so even with the target at 10 percent, the vast majority of the loans still went to the for-profits.

So even with this goal, what is the likelihood, based on past history, that all of a sudden the nonprofits are going to take over this program?

Secretary CASTRO. It is still a real challenge for most nonprofits to be able to take on these notes. And that is part of the reason that the sales to nonprofits have been modest. And I have heard the frustration from different groups, from Congressman Capuano and others. And we have said that part of the challenge is capacity, but we are willing to do what we can in a sound way, a reasonable way, protecting the fund, make smart program improvements that allow nonprofits to competitively bid.

It has to be said that they are not getting a discount; they have to meet the reserve price. So we believe that we can make important changes that allow them to competitively bid without sacrificing the stability of the Mutual Mortgage Insurance Fund.

Mr. CLEAVER. Thank you.

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.

When you were here before this committee for the very first time, I think you were very new on the job, and I know you were asked a lot of questions, and a lot of specific questions, and at that hearing, being new on the job, you didn't have specific answers to those specific questions. Now it has been some time and I guess we are still looking for specific answers, which apparently an hour into this hearing we are still not getting.

The chairman asked a simple question, I thought—actually it was going to be my first question. In your testimony you refer to an abundance of literature on auctions modifications and the effects, and so on and so forth, and he said, can you name two out of the abundance of them that you cite? And your answer was no, you cannot name two studies that you—

Secretary CASTRO. Actually, I didn't—that was not my answer. That was not my answer, Congressman Garrett.

He asked specifically which specific studies did we rely on. I am not here to warrant every specific study that our FHA staff relied on.

I could speak for myself. I have looked at studies, for instance, from the Urban Institute, from the Center for American Progress. Obviously, I have had the opportunity to review the chairman's letter.

Mr. GARRETT. So those are a couple of studies. And did you rely upon the Urban Institute study for this?

Secretary CASTRO. I don't micromanage these individual programs.

Mr. GARRETT. This is a significant—

Secretary CASTRO. I try not to. So I want to be very careful that I think that the appropriate level of—

Mr. GARRETT. I get that.

Secretary CASTRO. —understanding is what the FHA staff who recommended this policy came up with. So—

Mr. GARRETT. So the basic question—

Secretary CASTRO. —do I believe that they relied on a whole number of stakeholders? Yes, I do. I know, for instance—the National Association of REALTORS®—

Mr. GARRETT. I only have—

Secretary CASTRO. —put forth a letter—

Mr. GARRETT. —3 minutes left. So you have not been able to indicate to us the specific studies that you read and that you relied upon. You are relying upon your staff. Okay.

Secondly, the—

Secretary CASTRO. No, I said that I have read the Urban Institute study. I have read the—

Mr. GARRETT. Let's stop there. When did the Urban Institute study come out?

Secretary CASTRO. I believe the Urban Institute study came out earlier in 2016.

Mr. GARRETT. And so is that a study that you relied upon?

You're not sure?

So in that study, as far as I know and what the reference that we have seen to it is, that study did not say that there will be additional revenue flooding to the program, to the mortgage fund, did it?

No, it did not.

Secretary CASTRO. The study, in fact, suggested some of the changes that are being made in this round of improvements.

Mr. GARRETT. Specifically, the study—

Secretary CASTRO. I will give you a specific example if you want. If you want specifics, it—we are implementing what is called a no-walkaway provision. It is something that was mentioned in the Urban Institute study.

Since you want specifics, I just wanted to give you a specific answer—

Mr. GARRETT. I want a specific answer to the question. The study did not say that by going to a no-bid process, you would actually maintain or increase the funds that flow to the mortgage fund, did it?

Secretary CASTRO. We are not going to a no-bid process.

Mr. GARRETT. The program that you have under DASP where you are going to allow for a minimum bid effectively allows them to bid at a price that is minimum when there are no other bidders—

Secretary CASTRO. I think you are misunderstanding our approach. We are requiring bids. They are not getting a special discount. They have to meet the reserve price.

Mr. GARRETT. But you do a—

Secretary CASTRO. Just so that we can characterize it correctly, it is not the way that you are laying it out.

Mr. GARRETT. Doesn't it defy logic to say that if you are going to have less revenue coming into the fund that you are going to be able to meet the fiduciary responsibility to the fund?

Now, let's just do a side note there. Mr. Luetkemeyer makes that point: You do have a fiduciary responsibility to make sure that the fund is sound, correct?

Secretary CASTRO. Oh, I absolutely do, sure.

Mr. GARRETT. Right. And you do have a responsibility to make sure that it is able to meet its obligation, correct?

Secretary CASTRO. I do.

Mr. GARRETT. And right now the HUD has—back in 2013 there was a $1.7 billion taxpayer bailout to HUD. Is there any plan in place to actually pay that back to the taxpayers?

Secretary CASTRO. Congressman, why are we talking about 2013? In 2016—

Mr. GARRETT. Right. Because—

Secretary CASTRO. —it is over 2 percent for the first time in 6 years.

Mr. GARRETT. The reason I am asking about 2013 is because that has not been paid back. That was 3 years ago. Do you have a plan to pay that back, and how does that plan coincide with this DASP modification, which does not allow for the same amount of revenue or increased revenue coming into HUD?

Secretary CASTRO. As I mentioned earlier, folks who have looked at this in OMB, the folks who looked at this from the Urban Institute—in fact, they put out a note yesterday; that was the authority that was cited in the letter—have said that there is not going to be a negative impact—

Mr. GARRETT. But you did not rely upon that note yesterday. This program has been in place for some period of time.

My time has expired.

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, Mr. Chairman.

And thank you for being here, Secretary Castro, and for your leadership and your words in Dallas.

I also want to thank you for being responsive to the concerns that many of us on the Democratic side raised about the Distressed Asset Stabilization Program. Along with many Democrats, I signed a letter which was led by one of our colleagues, Mr. Capuano, and in that letter we requested changes to the program that would produce better outcomes for both borrowers and the local communities. And the changes that HUD announced last month were certainly responsive to those concerns, so I want to thank you for the steps that you have already taken in response to Mr. Capuano's letter.

My first question is about how HUD pools distressed loans in this program. As you noted in your testimony, when HUD sells pools of distressed mortgages they either sell national pools or neighborhoods stabilization outcome, or NSO, pools. But there is a critical difference because buyers of NSO pools are required to achieve more borrower and neighborhood-friendly outcomes for at least 50 percent of the loans.

So my question is, how does HUD decide which loans will go into the NSO pools and which ones will go into the national pools? And when HUD puts together pools of loans that are for nonprofits only, how do they decide which of these loans go into those pools?

Secretary CASTRO. Thanks a lot for the questions, Congresswoman.

You are right, there are different types of pools, the largest being the national pool. There have also been neighborhood stabilization outcome (NSO) pools, and then these very small nonprofit pools.

Just to give you a sense of the scale here, there have only been, in terms of the nonprofit-only not sales bidding within nonprofits only, 164 loans out of 106,721 loans sold, and about 1,850 NSO loans that have gone to nonprofits. So I want to give folks a sense of the scale. That is out of 106,000.

Your question was how do we decide which—basically which notes go into which type of pool. Mostly that has been done with a concern, first, for geography. Second, more of the notes that go into NSO pools and the nonprofit pools are notes where we don't have a vacant home, where we have families who are still living there, because that is the point is that these nonprofits can be more successful at keeping a family in their home.

And also, geography, that we want to pool these loans, for instance in a City like Detroit or another community, where you can all get them together, and if you can keep those folks in their homes and achieve other outcomes you can actually end up promoting strong neighborhoods. Those are some of the factors that go into making that determination.

Mrs. MALONEY. One of the rationales for the DASP program is that HUD can't pursue some of the borrower-friendly resolutions that private sector investors can pursue, and therefore we need to sell these distressed loans to private sectors in order to access these borrower-friendlier outcomes. My question is basically, why?

Can you please explain why we need to sell these mortgages to private investors in order to pursue borrower-friendly resolutions? Why can't HUD pursue these borrower-friendly resolutions themselves?

If there are better ways of resolving distressed loans then why do you have to sell to the private sector? Why can't you let not-for-profits or HUD be the ones that pursue these better outcomes?

Secretary CASTRO. Yes, so this was a question that we got from, of course, the advocacy groups on the left that to look at some of it would rather that we scrap the program.

Here is why we believe the program has real merit, real value: because if it is done right there is actually, as the Urban Institute has said, an alignment of interests that if they do their modeling correctly these investors actually have an economic incentive, a profit motive to keep families in their home so that we can keep—because—basically because keeping them in their home is more profitable than going through the lengthy foreclosure process. That is the fundamental idea behind the win-win and the dual goals of this program.

Now, I will say that there are individual instances where that doesn't work as well as it should. We think nonprofits can step in in some of those instances.

Chairman HENSARLING. The time of the gentlelady has expired.

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

Mr. NEUGEBAUER. Thank you, Mr. Chairman.

And thank you, Mr. Secretary, for being here.

As I listened to your testimony and the dialogues we have been having here, I think I hear a recurring theme, which is that your staff recommended this, your staff supported this. And certainly in any kind of chain of command you have staff to make recommendations to you.

But in fact, I guess you are a staff member for the President of the United States. He has appointed you to be in a very important position because part of your oversight responsibility is that you are overseeing the largest mortgage insurance fund in the world, and that is a pretty big responsibility. And certainly you want to get staff to do that.

I guess the question I have is, when I cast a vote up here and my constituents back home say, "I don't like the way you voted," they don't find me telling them, "Well, that was my staff's recommendation," to be very comforting because, Mr. Secretary, quite honestly, the buck stops with you. Now, you may have people advising you, and again, you are in a very important position.

And so I guess the question that I have is when you are looking at an insurance fund you are making—and you talked about under your watch it is now 2 percent and you—looking actuarially at what the sustainability of the fund. Did you look at any models that would say that if we make these policy changes that we know what the impact is? Because you—in your written statement you say it is going to—you feel like it is a positive for the fund to make these changes.

So I assume, then, that you looked at a model that somebody provided you which showed you that things get better. Is that correct?

Secretary CASTRO. Yes.

Mr. NEUGEBAUER. Can you furnish—

Secretary CASTRO. Yes, so what I got was I got an assessment based on the work of FHA and OMB to model this to ensure—

Mr. NEUGEBAUER. Yes. You got an assessment, but what I am looking for is as the CEO of HUD, what kind of concrete documents—what models did you personally look at to say, I think that is—

Secretary CASTRO. Yes. So I have had the opportunity to look at the difference in the rate of return, some of the figures that I have talked about today, an assessment from OMB and FHA about whether this would impact the fund. And based on that, if you are asking me personally, why do I have confidence in this decision, it is because I have had the opportunity to digest that and also get the recommendation from my staff.

Mr. NEUGEBAUER. Mr. Secretary, have you ever been to a property that would—these—that note is subject for sale?

Secretary CASTRO. That was part of DASP?

Mr. NEUGEBAUER. Yes.

Secretary CASTRO. Not that I am aware of, no.

Mr. NEUGEBAUER. Yes. So that is another recurring problem here. We have had other appointees and people come in here and talk about making major policy changes—for example, one of those was small-dollar short-term loans—and I asked that particular individual if they had ever actually been into a payday lending facility and visited with the customers. They had not done that.

What you are saying is you have not been to properties that might be subject to DASP, and I am puzzled—

Secretary CASTRO. Well, that is a different question.

Mr. NEUGEBAUER. I am puzzled—

Secretary CASTRO. Have I been to a property that might be subject to DASP or that was in the DASP process? I don't think that I have been to one that was actively in the DASP process. Congressman, I have been to a lot of distressed neighborhoods, both as HUD Secretary and as mayor of San Antonio and in my life.

And so I am quite confident that I have been to neighborhoods where we have distressed assets. But have I been to one that was actively in DASP at that time? I don't believe so.

Mr. NEUGEBAUER. I think another piece of that, the reason I wanted to see that model, is because one of the changes that you are proposing is that you make a longer waiting period for the purchaser of that note to be able to dispose of or foreclose on that property, so we have properties that already been, as the chairman said, 2½ years in delinquency, and now we are going to add another year.

And the reason I wanted you to answer the question if you had been to one of those properties is because when you let a property sit in that condition for 2½ or 3½ years, you are on a very steep depreciation curve, which means that your realization of proceeds for that particular loan, whether you sell it or sell the property, diminishes pretty rapidly.

And so I am very—as someone who has been in the real estate business for a long time, I would like to see how you make that business—

Secretary CASTRO. Yes. With your experience then you would know that because of this alignment of interests and the way that the program actually works—and this was also in the Urban Institute note from yesterday, Mr. Chairman—when in 2015 we expanded the moratorium on foreclosure from 6 months to a year, that is not likely going to have an impact on a vast majority of properties that actually end up either in a modification or short sale or something other than strict foreclosure. It will impact some properties—

Mr. NEUGEBAUER. It is going to affect the bid that I—

Secretary CASTRO. —however—

Mr. NEUGEBAUER. If I have to wait a year as opposed to 6 months it is going to affect the bid that I am willing to pay for that note.

Secretary CASTRO. But you are also pointing to why we need these nonprofits to do a better job of keeping people in their homes.

Chairman HENSARLING. The time of the gentleman has expired.

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

Mr. CAPUANO. Thank you, Mr. Chairman.

How are you doing, Mr. Secretary? It's nice to talk to you again.

Secretary CASTRO. It's good to see you.

Mr. CAPUANO. Mr. Secretary, just to clear up the first item that was brought up, the MMIF fund that went below 2 percent, I want to be clear that it is my understanding that the reason you were required to ask for an appropriation is because the law requires you to do so, number one. Number two, did any of that money ever get spent?

Secretary CASTRO. It did not.

Mr. CAPUANO. Not one penny got spent. So there was no bailout of the fund, no bailout of FHA, no bailout of HUD, no bailout at all by taxpayer funds. I just want to be clear about that.

Secretary CASTRO. That is correct.

Mr. CAPUANO. That is what I thought.

After today's hearing, you have a while longer here. I kind of want to start off by asking, do you see why you shouldn't do anything halfway? When you do it halfway you are going to get kicked by them anyway, so why don't you just do what we want you to do?

No matter what you do, you can't satisfy them. Two percent. "Oh, my God, 2 percent. That is terrible. You are ruining the entire world."

And for us, "Oh, 2 percent. Thanks. Like it. Better than nothing, but we want more."

Why do we want more? I want more because the greatest study of mankind I have ever read is the Bible, and it says, "Do unto others as you would have them do unto you." That is all I want HUD to do: treat these neighborhoods as you would want your neighborhoods to be treated.

Have you ever shopped at Costco or BJ's or Walmart? When you go in and you see 1,000 rolls of toilet paper for five bucks, you buy it. If you bought each of those rolls individually, wouldn't it cost you more?

Secretary CASTRO. Sure.

Mr. CAPUANO. So people will pay more for an individual disaggregated item than they will for a big huge chunk of the same items. That is what I want HUD to do.

Before your time they sold 17,000 single-family homes to Lone Star Fund. One batch of properties, one hedge fund—17,000.

You could have gotten more money had you broken them up and sold them individually either to the neighbors or to the local community development people or anybody else. That is just general knowledge. That is all I want you to do.

Yes, it is more paperwork for your people. We get that. But you would make more money, and they would be happy. Actually, they wouldn't be happy. They should be happy, but they won't be happy no matter what you do.

And we would be happy because we are servicing our communities.

I want you to act like Costco. Do what they do. Actually, do the opposite of what they do. Break it down. Sell it individually.

Time is always short on these things.

I do want to talk about one item. Former mayor, HUD Secretary, I am sure, like you, in my neighborhoods where I come from, there are a lot of people having immigration situations one way or the other from all over the world. I am constantly working on helping people become U.S. citizens and moving here.

I have never worked on having a U.S.-born person renounce his or her citizenship. Have you ever helped anybody renounce their citizenship?

Secretary CASTRO. I have not.

Mr. CAPUANO. Have you ever heard of anybody renouncing their citizenship?

Secretary CASTRO. No.

Mr. CAPUANO. I haven't. I have never known anybody who renounced their citizenship.

Yet, you know who did? The guy who runs Lone Star. He has made billions on the DASP program. Billions.

He just bought a $38 million condo in my district. I can see his condo. Yet, he renounced his U.S. citizenship. He was born here. And yet we reward him. I think that is a little "bass ackwards."

Again, I want to appreciate what you have done. Not criticizing, but my job is to push for more. And when you push for more we will be satisfied. And if you took this and got rid of it, you would get rid of the—they are not going to like what you do.

That is what I don't understand about the Administration. You think that when you do the right thing somebody on that side would say, "Good job." That isn't going to happen. Not today, not next week.

So therefore, do the right thing. Help our communities keep themselves whole by allowing these homes to be bought by people who care and know the individuals who live them and the individuals where they live.

Thank you, Mr. Secretary.

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 welcome, Mr. Castro.

I wasn't going to go here, but just after Mr. Capuano's questions, did Lone Star violate the rules of FHA?

Secretary CASTRO. Not that I know of, Chairman Duffy.

Mr. DUFFY. They did nothing wrong, correct? They did nothing wrong. They played by your rules and someone made some money, and maybe now the plan is that Mr. Capuano doesn't like that so we want nonprofits maybe to—

Mr. CAPUANO. No, I like it and I am happy—

Mr. DUFFY. No, no, no, no. This is my time.

Mr. CAPUANO. —if the gentleman would yield.

Chairman HENSARLING. The time belongs to the gentleman from Wisconsin.

Mr. CAPUANO. If the gentleman would yield, I would like to ask him a question.

Ms. WATERS. Point of order.

Chairman HENSARLING. The time of the gentleman from Massachusetts is out of order.

The gentlelady will state her point.

Ms. WATERS. The point of order is that he referred to the gentleman and he referred to him incorrectly. The gentleman should have an opportunity to defend himself.

Chairman HENSARLING. It is not a point of order. It is not a proper point of order.

Ms. WATERS. Well, I am making it one.

Chairman HENSARLING. The time belongs to the gentleman from Wisconsin.

Mr. CAPUANO. —Sean.

Mr. DUFFY. Thank you, Mr. Chairman.

Mr. Castro, I want to go to, again, your studies. You have had some questions on this, but your studies that you have done, if any, that analyze how these changes that are being made to the operation of DASP, how that will impact the fund and/or taxpayers. Have you done any studies at HUD?

Secretary CASTRO. We have done analyses—

Mr. DUFFY. Analyses, meaning studies?

Secretary CASTRO. Well, analyses—when you say "studies," do you mean longitudinal studies? Do you mean—

Mr. DUFFY. What I mean is, have you studied the impact that this is going to have on the fund?

Secretary CASTRO. We absolutely have studied the—

Mr. DUFFY. And it is not going to have a negative impact on the fund? Is that your conclusion?

Secretary CASTRO. We believe that it is not going to have a negative impact, that in fact it can have a positive impact.

Mr. DUFFY. So explain that to me because if we—you set a reserve, and traditionally we have profits and not-for-profits come in and bid on that reserve. If you exclude some of the for-profits in the bidding, you potentially won't get the highest price. So how can't that in the end impact the fund?

Secretary CASTRO. Number one, there are going to be more bidders now.

Mr. DUFFY. How so?

Secretary CASTRO. Secondly—

Mr. DUFFY. How so?

Secretary CASTRO. Because we believe that by introducing more of these nonprofits into the bidding process in a way that does not interrupt the bidding of private sector investors that we are actually ultimately going to get a better outcome—

Mr. DUFFY. So are these—

Secretary CASTRO. —for the fund.

Mr. DUFFY. —are these nonprofits right now precluded from bidding?

Secretary CASTRO. Right now—remember that there are these three different pools.

Mr. DUFFY. Right.

Secretary CASTRO. There is national, there is NSO, and there has been the very small nonprofit-only that has only had 164 loans out of 106,000.

Mr. DUFFY. But these nonprofits aren't precluded from stepping in and bidding right now, correct? If you—

Secretary CASTRO. They have not been bidding on the national pools.

Mr. DUFFY. So—

Secretary CASTRO. So they are bidding on up to 5 percent of the national pools.

Mr. DUFFY. But they are not precluded, right? They might not be bidding, but they are not precluded.

Secretary CASTRO. They will not be any longer, no.

Mr. DUFFY. So you want to have nonprofits bid and you want to open it up to more nonprofits, great. But also open it up to for-profits so you can actually get the best price for the asset, right?

Secretary CASTRO. We believe that we are going to get a very good price. We believe that because we are requiring that they at least meet the reserve, and if you have competitive bidding among the nonprofits that it is not going to hurt the fund in any way.

Mr. DUFFY. You are concerned about destabilizing neighborhoods, is that right? If these loans are going to—

Secretary CASTRO. Yes, I want to promote strong neighborhoods.

Mr. DUFFY. And if this goes wrong you could destabilize neighborhoods. Is that correct? Is there a risk of that?

Secretary CASTRO. If the program goes wrong?

Mr. DUFFY. Yes. If your concern is if we have a lot of foreclosures in a certain area, that could destabilize a neighborhood, and that is why you want to have nonprofits step in and make sure that you keep that neighborhood strong. Is that right? Is that the theory behind this?

Secretary CASTRO. That is one of the reasons. Also, as I said, because if you take the example of our largest nonprofit bidder, it is almost 3 times as successful in actually keeping families in their homes.

Mr. DUFFY. So isn't it fair to say that the work of HUD, the work of FHA of putting people in homes that they cannot afford, is destabilizing neighborhoods? It is—

Secretary CASTRO. Not at all. I—

Mr. DUFFY. —your work at FHA, or your predecessor's, that are putting people in homes—

Secretary CASTRO. I would just disagree with that point.

Mr. DUFFY. —that they can't afford, and how you are going to step around the backside and say, "We have made mistakes. We now have to try to keep them in their home so we don't destabilize the neighborhood."

My question for you is, have you changed your underwriting standards so you are now not going to put people in homes they can't afford?

Secretary CASTRO. Yes, Congressman, I would just say I disagree with you on the characterization of the program. These are folks who—

Mr. DUFFY. You can't have it both ways, though.

Secretary CASTRO. —like many Americans, have been struggling as homeowners, and we believe that we can both protect the Mutual Mortgage Insurance Fund and build it up—and we have—and also try and keep more families in their homes.

Mr. DUFFY. But—

Secretary CASTRO. In other words, it is not just about the numbers on paper. This is about the people in those homes.

Mr. DUFFY. I want to keep people in their homes too. I agree with you.

But look at—the process that you go through of the 29 months, you have informal forbearance, formal forbearance, special forbearance, loan modification.

Loan modification: one is balanced reamortization, one is interest rate change loan modification, which is a loan term extended, you have the HAMP program. There are seven things that you go through trying to keep people in their home over 29 months, and eventually if they can't stay in their home why are we prolonging the process? What are you going to do but give their home to them for free?

Secretary CASTRO. We owe it to the American people, to American families, to make every effort—

Mr. DUFFY. I agree. And you have 29 months and 7 steps. If they can't do it there—

Chairman HENSARLING. The time—

Mr. DUFFY. —let's end the process.

Chairman HENSARLING. The time of the gentleman has expired.

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

Mr. HINOJOSA. Thank you, Chairman Hensarling and Ranking Member Waters, for holding this important hearing.

I also thank and welcome Secretary Castro for joining us this morning.

Mr. Secretary, while I am pleased that you are here to testify on this important matter of HUD's Distressed Asset Stabilization Program, I am disappointed by the lack of respect shown to you by a few Members of the Majority. In my view, this is neither regular order nor is it the proper way in which we should treat a Cabinet Secretary or conduct the work of this committee.

It seems to me that the Distressed Asset Stabilization Program, DASP, is a program with much potential to help struggling homeowners to stay in their homes. The program's primary goals include stabilizing neighborhoods hard hit by the 2008 deep recession and fostering community revitalization. Unfortunately, the results of the program and whether homeowners are ultimately benefitting from DASP are not clearly known.

Mr. Secretary, concerns have been raised that the proposed changes to the program will have a negative impact on the bottom line of the Mutual Mortgage Insurance Fund and to the taxpayers. To be clear, I want to know, will nonprofits be given a preferential price? Isn't it true that nonprofits have to meet the reserve price, which is the market price?

Secretary CASTRO. You are correct, Congressman. As I mentioned a little bit earlier, we are requiring that these nonprofits actually meet the reserve price, and so they are not getting a discount. I know that this has been one of the changes that has been suggested by others.

We are taking, I think, a constructive approach to making changes to the DASP program, and so we are requiring that they meet that reserve price. We believe that provides protection so that the goal of keeping families in their homes can be better achieved through engaging these nonprofits. But at the same time we continue to build up the health of the Mutual Mortgage Insurance Fund, and you have a win-win on those dual goals that I have talked about.

So, of course we very much are engaging these nonprofits, but also requiring that they meet that reserve price.

Mr. HINOJOSA. HUD's intent is going to be, as it progresses and succeeds, to help a lot of entities that benefit by those folks being in those homes and paying property taxes to the school district, to the community colleges, to the health districts, to many, many groups that give services to the cities, communities, and regions. So how will the proposed changes affect the bottom line of the Mutual Mortgage Insurance Fund?

Secretary CASTRO. We believe that it is not going to have an impact on—these changes will not have a negative impact on the Mutual Mortgage Insurance Fund. Over the life of DASP it has contributed $2.2 billion more to the Mutual Mortgage Insurance Fund than the MMIF would have gotten through the traditional real estate owned process.

So we believe that we have hit the right policy balance here of helping more families stay in their homes but also ensuring that we continue to do right by the Mutual Mortgage Insurance Fund, and that is what we are aiming for.

Mr. HINOJOSA. Thank you for answering my question and getting it into the record.

Isn't it true that hedge funds get a 50 percent discount at auction?

Secretary CASTRO. That they get 50—

Mr. HINOJOSA. Yes.

Secretary CASTRO. It is true that bidders end up paying less than the—what is the—called the UPB, the unpaid principal balance, that all bidders, whether they are nonprofits or they are private sector hedge funds or others entities—yes, they end up bidding less than 100 percent of the unpaid principal balance, sure.

Mr. HINOJOSA. Thank you.

I am, however, encouraged by your Department's recent announcement of some forthcoming changes to the program. In particular, I applaud the policy changes making principal forgiveness the primary option that investors must consider, including payment shock stipulations and making room for proven and mission-driven nonprofits to be able to bid on those loans. I look forward to learning more about these changes and to working with you to better improve the program.

I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from South Carolina, Mr. Mulvaney, for 5 minutes.

Mr. MULVANEY. I thank the chairman.

Mr. Castro, I have a couple of different questions on a couple of different topics.

You received a letter on May 12, 2016, from a variety of groups—I won't read all of them: The Daily Cause; Democracy for America; MoveOn.org; The Other 98%; Action; Working Families Party—encouraging you to make essentially the same changes that you made about 3 weeks later. Is it your testimony, sir, that this letter had no influence whatsoever on your decision to change the DASP program?

Secretary CASTRO. It is my testimony that that letter, like other letters that we have received, like the studies that I read from the Urban Institute and looked at from the Center for American Progress, the conversations I had from time to time with my staff and with Members of Congress, that all of that, both in my decision-making and in the FHA staff's decision-making, has gone into formulating these changes.

Mr. MULVANEY. Fair enough. And I guess it would be the same answer, then, for your meeting with Senator Elizabeth Warren, the letter you got from 45 U.S. Congress Members, which I assume were Members of the other party. It would be the same answer for that question, right?

Secretary CASTRO. That all of the input has been taken into account.

Mr. MULVANEY. Okay.

Now, I want to talk about the process, because that is what I really don't understand, because you are using a word in a way that I don't understand in the English language, which is you are using the word "bid" in a way that I guess I don't understand. I thought a bidding process was where a bunch of us would bid on something and then, using that bid process, the highest bidder, the most qualified bidder, whatever, you would use that to sort of make a determination as to who wins.

That is not how you guys are working it on this new program, right? You are somehow taking a piece of the pie and setting a reserve price and then sort of steering that to nonprofits.

I have a couple of questions. How do you set the reserve price?

Secretary CASTRO. Yes, so FHA sets that reserve price based on the unpaid principal balance. It doesn't change the way that it sets that reserve price across these different pools. Again, I want to stress—

Mr. MULVANEY. Do you publish the reserve price?

Secretary CASTRO. Excuse me?

Mr. MULVANEY. If I am bidding, if I am MoveOn.org and I want to bid on this do I know what the reserve price is before I bid?

Secretary CASTRO. No, I don't believe they do.

Mr. MULVANEY. What steps do you take to make sure the reserve price doesn't leak out of your office to these various groups?

Secretary CASTRO. The steps that we usually take, the FHA staff is very careful to ensure that—

Mr. MULVANEY. Would it be a crime for a member of your organization to leak that information out?

Secretary CASTRO. Not at all.

Mr. MULVANEY. Why not?

Secretary CASTRO. Are you suggesting that a member of the organization is leaking something out?

Mr. MULVANEY. I am asking if you think it is a crime if that would happen?

Secretary CASTRO. We have no evidence of that, no. I have confidence in the FHA—

Mr. MULVANEY. Have you examined whether or not that is happening?

Secretary CASTRO. We have never received, as far as I know, any kind of complaint that that has ever happened.

Mr. MULVANEY. Do you think that if you didn't set the reserve price and you just opened up the bidding to everybody, that the amount that you would receive on the highest bid would be higher than the bid that ultimately is awarded to the not-for-profit groups?

Secretary CASTRO. Congressman, I am not going to go on hypotheticals. All I know is the policy changes that we are putting in place, there is a reserve price. Whether they are nonprofit or they are a for-profit investor, they have to meet that reserve price.

Again, when we operationalize these programs we want to make changes—

Mr. MULVANEY. Have you ever sold a loan or a package of loans in the DASP program—

Secretary CASTRO. —that can actually be put into effect and meet those new goals.

Mr. MULVANEY. Have you ever sold a program to a not-for-profit group for less than you could have sold it to a private entity for profit?

Secretary CASTRO. Have we ever sold a loan to a nonprofit—

Mr. MULVANEY. A package of loans to a nonprofit for less than you could have sold that same package on the open market.

Secretary CASTRO. We probably have, yes.

Mr. MULVANEY. When you did that, did you take any steps to make sure that the nonprofit was restricted on reselling that package on the open market?

Secretary CASTRO. These nonprofits are doing this for the very fact that they want to keep families in their homes and promote strong neighborhoods—

Mr. MULVANEY. But you also agree with me that they have the ability to resell those on the market at a profit.

Secretary CASTRO. Actually, as part of the NSO pools they—there are certain requirements that they have to meet in terms of outcomes for these properties. So again, this program is very well constructed to make sure that we meet both of those goals.

Mr. MULVANEY. And if they have met all those—if they met all those requirements they could resell those loans on the open market, couldn't they?

Secretary CASTRO. No, that is not what is happening. I am—

Mr. MULVANEY. Do you restrict them legally from reselling the loans?

Secretary CASTRO. I just mentioned that the point both for NSO pools and now for national pools when nonprofits bid is community redevelopment and keeping families in their homes.

Mr. MULVANEY. And as long as they met those requirements they can resell the loans, can't they?

Secretary CASTRO. We have not seen that that has been an issue.

Mr. MULVANEY. Do you prevent them from doing that legally?

Secretary CASTRO. I would be glad to follow up with you on the instances if or when that has occurred.

Mr. MULVANEY. Do you know whether or not you do this or not?

Secretary CASTRO. I am not going to guess at that now.

Mr. MULVANEY. So you don't know.

Secretary CASTRO. Like I said, I would love to follow up with you on it.

Mr. MULVANEY. All right. I think that is all I have.

Thank you very much, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from New York, Mr. Meeks.

Mr. MEEKS. Thank you, Mr. Chairman.

I want to join some of my colleagues on this side in apologizing to you, Mr. Secretary, for what could have been an important hearing, but the way my colleagues on the other side are acting, it is really not an important hearing. But maybe it is because it is revealing to the American people who really wants to keep them in their homes, who really wants to make sure that families stay together, who really wants to keep communities together, and who, no matter what or how unscrupulous they may be for the opportunity to gain an extra dollar, don't care about the middle class, don't care about the hardworking person, don't care about someone who is trying to have and live the American Dream.

So maybe it is an important hearing because the distinction between the two is becoming clear. I know these hearings should be about real policy issues and not about politics, but apparently what I am hearing—and you are subject to it—you are just hearing the differences, where one side cares about people and the other side just cares about money.

But in your policy, Mr. Secretary, you are still making sure that you are maintaining the integrity of the dollar for the American taxpayer. You are not losing or throwing away money, but you are putting a process in because what do we know? We know that during the financial crises in a district like mine, that I am very thankful that you had the opportunity to visit not too long ago, where you had neighborhoods like St. Albans, Queens, and South Jamaica, et cetera, who were directly impacted because of the foreclosure crises.

And I read the National Fair Housing Alliance. Many of these communities—these folks who, some women to them, who just wanted a dollar—these communities were targeted—targeted—for what they knew to be unsustainable subprime loans and subsequently experienced high levels of foreclosure so that they could make a profit, for they knew that these homes would go into foreclosure.

As a result, the remaining homeowners in these communities have suffered tremendous loss of wealth. By one estimate, homeowners particularly in communities of color lost $1.1 trillion in wealth. So not just—we are talking about a whole host of people who have lost wealth at the expense of a few people who take away their citizenship or denounce their citizenship to the United States after making trillions of dollars.

Half of all the wealth lost was as a result of foreclosure crises. The impact of this loss will be long-lasting, affecting not only the current generation of homeowners of color but also future generations. It is critical that we do all we can to prevent avoidable foreclosures and minimize the downward drag they exert on communities of color and the economy overall. This is from the National Fair Housing Alliance.

So what you are trying to do is critical to the basic values of being an American—that American Dream, that homeownership—and trying to make sure that we have just a small part, from what I am hearing—a small part where you have someone who will make sure that there is fiscal stability and economic opportunity for someone to own the home but not someone whose first and only motivation is how much money can I make, like these articles we have read recently where these private equity firms—they don't care about the individual. None of that is considered.

When I think about myself, my parents, if it wasn't for someone who wanted to go out of the way to make sure that they were able to buy a home in the first place, they would have never had one. But someone went out of their way to try to make sure that the principal, the money, and that is it. But money and people, making sure that they had the ability to stay in their home.

That is what these nonprofits will do. They will go out of their way to give them the aid that they need to have and not be there just for the greed of making an extra dollar.

So I compliment you with reference to this program. You have to try to figure it out. You are starting small, but if you see success—I think I heard Mr. Capuano said if you see success, do it.

And do it despite those who would criticize you. Do it because it is the right thing to do.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Florida, Mr. Posey, for 5 minutes.

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

Secretary Castro, I am having a hard time understanding how, when, and why HUD decided to make the changes in the Distressed Asset Stabilization Program we have been referring to as DASP, so let me just reiterate a timeline here.

In April you gave an interview to the New Yorker where you defended the program. This is a copy of the article. The headline reads, "Secretary Castro Pushes Back Against Liberal Critics." Your defense of the program was in response to a campaign activist who wanted to use the DASP program to sell troubled loans to community groups rather than private actors like banks.

So here you are in April—late April, actually—giving a pretty spirited defense of the program that you had put in place, which I guess was pretty well received at that time, pretty much respected. And then in June, HUD and FHA announced the most significant improvements to date to the DASP program—now again, the most significant improvements to date.

So in 2 short months, which is often considered overnight in government bureaucracy terms, we go from defending a program to making sweeping changes. And that is an unusually quick turnaround, I think we would both admit.

And so I think it raises a lot of questions and concerns, chief among them how you can reassure taxpayers that HUD and FHA have put in sufficient time and effort and analysis to protect them when these significant changes were seemingly developed in as little as 2 months. And we are just talking about assuring taxpayers that they will be protected.

Secretary CASTRO. So what was your question, Congressman?

Mr. POSEY. No, actually it is a pretty simple one. Comparatively speaking, I thought this would be like giving you a break, actually.

Secretary CASTRO. Well, yes, so you mentioned an April interview. I gave several interviews or commented on this not just to the New Yorker but I think to MSNBC and a couple of other outlets. And I think what you are doing is comparing apples and oranges.

I pushed back against the idea that somehow we should just scrap this program. And the responsibility that I have is a fiduciary responsibility. I also have the responsibility, as someone who is proud of being liberal, but to operationalize programs in a way that meets those responsibilities and ultimately serves homeowners and also does what it should for the fund.

So at no time did I ever say that, well, no improvements will ever be made to the program. In fact, the FHA staff began working on improvements as soon as the program came into being several years ago. And specifically, for this next note sale they started working on changes after the last note sale in the first quarter of Fiscal Year 2016.

So quite apart from that characterization of my comments, it has been the case that we have been making improvements the whole way through, and I never said that we wouldn't make further improvements in the future.

At the same time, where I push back is the idea that the program doesn't have any value or that we can't keep families in their homes. I believe that the program can work, that we can do the right thing, and the challenge for people in my position is to operationalize these programs effectively, and I believe that is what we are doing.

Mr. POSEY. I guess the next question would be, if the contention is that HUD was contemplating changes to the program before the interview in April, why weren't they mentioned, and wouldn't it be a little bit of relevant information that would be known?

Secretary CASTRO. Because I take very seriously our obligation, our responsibility not to go and speak at length about changes that are still within the process of being formulated. In fact, I did not share with any of the advocates or other outside groups any of the specific policy changes that we would be making in this round.

There is a process that FHA goes through to get input and then also to contact Members of Congress and let them know what we are thinking about doing before we announce it. We did that in this case. We reached out, including to Chairman Hensarling.

I take that very seriously, so I am not going to go out and speak in detail about things that we are doing when it is not the right time.

Mr. POSEY. Thank you.

Chairman HENSARLING. The time of the gentleman has expired.

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

Mr. SHERMAN. Mr. Secretary, we heard from one of the other questioners pointing out that you get letters from MoveOn.org and one signed by 45 Members of Congress, and you indicated that you give that due consideration in making your decisions. When you get letters from Republican Members of Congress, when you hear their comments in this room, do you give that all due consideration to the extent those comments are insightful and factor those into your decisions?

Secretary CASTRO. Of course we do.

Mr. SHERMAN. Thank you, for the record.

The PACE program is a good program in that it finances improvements of homes that save energy. But it can create a cloud on title and the whole mortgage process.

I am told to expect a new announcement about the PACE initiative, and I wonder whether prior to making that announcement your Department will be looking at the budgetary implications and the potential impact on the Mutual Mortgage Insurance Fund. So are you going to be looking at those things before an announcement on PACE?

Secretary CASTRO. We certainly will. Before we implement a PACE program, of course we would and have gone through significant analysis. We continue to formulate the best approach on PACE, but we look forward to following up with you and any other member of the committee who wants our thinking on that.

Mr. SHERMAN. I will bring to your and your staff's attention an exchange of letters I had with Richard Cordray to make sure that when consumers sign up for these loans that they are fully aware of the situation and the effect it can have if they go to refinance. And I also will bring to your attention a bill which has passed several committees and one house of the State legislature in California—a bill so good that I testified in favor of it in Sacramento—that is designed to make sure that homebuyers are aware of the implications.

I would like to more on to this Distressed Asset Stabilization Program. I ask unanimous consent to put in the record a letter to you from the National Association of REALTORS®.

Chairman HENSARLING. Without objection, it is so ordered.

Mr. SHERMAN. And I want to assure the committee that I have checked with Bernie. NAR is not a socialist organization. But they do point out that they urge the FHA to make investors work toward outcomes that will keep owner occupants in their homes and keep homeownership functioning in high-foreclosure neighborhoods. And I want to commend you for the decisions you make that achieve those objectives.

The letter also points out that forcing borrowers to sell their home in online auctions may not be in the best interest either of those selling the home or buying the home, particularly when both parties may not be all that familiar with the process. It is one thing if you buy and sell homes by the hundreds because you are a hedge fund manager, and I hope that you will take a look at that.

Finally, we are talking about recovery rates. Are you concerned that the HUD recovery rate from this program selling loans sometimes for less than their unpaid principal balance—does this pose any threat to the MMI Fund?

Secretary CASTRO. It does not. Whether we go the REO route, or short sale route, third party sale route, or DASP, each of those includes a recovery rate that is less than 100 percent of the unpaid principal balance. So we want to design the program in a way that, again, meets those dual goals: keeping families in their homes; but also protecting the Mutual Mortgage Insurance Fund. We can do both of those things.

Mr. SHERMAN. And I believe the fund has reached its mandated capitalization requirement early, so it is not like this fund is being depleted in a way that calls it into question. Do I have that correct?

Secretary CASTRO. That is true. We are at 2.07 as our capital reserve ratio.

Mr. SHERMAN. I yield back 14 seconds.

Chairman HENSARLING. The gentleman yields back.

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

Mr. ROYCE. Thank you, Mr. Chairman.

Secretary Castro, it is good to see you. Thanks for being with us today.

I am going to pick up on the question that my colleague from California, Mr. Sherman, raised earlier on this PACE program. In August 2015 Principal Deputy Assistant Secretary Ed Golding, whom I see is with us today, announced anticipated guidance on FHA-insured financing for properties with these qualifying PACE loans. And as you know, the use of PACE super-liens has grown more in California than anywhere else, and I think it does pose additional risks for homebuyers and lenders who already face some significant hurdles.

And if I could just ask you two questions on this, when is the Department's actual guidance on PACE loans coming? And will implementation be made through a HUD mortgagee letter or via a public notice-and-comment rulemaking?

Secretary CASTRO. Yes. Thanks a lot for the question, and it was good to connect with you recently, Mr. Chairman.

We are excited about the potential for a PACE program. We believe that it can be a good way of encouraging folks to adopt energy-efficiency improvements to their homes. We know that there are several States that have been leaders in this, including your State of California. We also know that there are different ways to approach this, and so this has been part of the gestational period, if you will, for this PACE guidance.

We anticipate very likely in the next several weeks that we will offer that.

Mr. ROYCE. Okay.

Secretary CASTRO. And I believe it is a mortgagee letter, but Ed can check me on that.

Mr. ROYCE. Okay.

Secretary CASTRO. But that is something that we are currently working on.

Let me just say that you alluded to this with respect to the example of California, that that is still being discussed, whether it is a mortgagee letter or public notice and comment.

Mr. ROYCE. Okay, well—

Secretary CASTRO. With respect to California, there is a California approach; there are also States that take a different approach. And so part of getting to this guidance has been looking at a way that we can work with the States to empower them to pursue PACE, and also, again, protect the integrity of the Mutual Mortgage Insurance Fund.

Mr. ROYCE. But it is create a cloud on title in the interim, so thank you.

Moving over to the focus of the hearing, I do have a question on DASP. FHA Acting Commissioner Carol Galante said in 2012 that an important objective of DASP is to save considerable money for the FHA's insurance fund. And I think you agree with that assertion.

Twice in your written testimony you mention how the proposed changes to the program are going to maximize return—or recoveries to the Federal Government, and I am having a tough time understanding how this is possible. If the nonprofit DASP buyers are able to purchase loans at reserve prices that are lower than what would be hit under the current open bidding process, aren't returns going to be lower logically?

Secretary CASTRO. I don't believe that is necessarily true. Also, I would point out—and this is something that I did not point out earlier—that assumes that the notes that these nonprofits are taking on would have been taken on by these private sector investors in a national pool. That is not necessarily the case. So we believe and OMB believes that it won't have a detrimental impact on the fund.

Mr. ROYCE. Let me ask you one last question, then. How are you going to gauge success?

Because if the relative rate of return, as compared to the traditional REO process, dips below the current 16 percent, is that then a setback? Or if it dips below 10, at that point do you have quantitative goals? At that point do you say, "Well, it used to be 16, and if the goal is to save considerable money for the FHA's insurance fund then we should go back to the old policy?"

My question is just to get to the objective of trying to set a standard here that will allow us to measure this.

Secretary CASTRO. Yes. I—

Mr. ROYCE. Will you go back and look at the rate—

Secretary CASTRO. I think that you put your finger on something that is a factor that we will look at as we evaluate how we meet both of these goals of building up the Mutual Mortgage Insurance Fund and then also keeping more families in their homes.

Mr. ROYCE. Right. But—

Secretary CASTRO. So yes, we will look at that.

Mr. ROYCE. But the relative rate of return is going to go down or it is going to stay the same or it is going to go up, and logically, if part of the mission is saving considerable money, that has to be put into the equation—

Secretary CASTRO. Sure.

Mr. ROYCE. —to balance the scale here.

Secretary CASTRO. However, I think you would agree with me that if that rate of return were to go down there could be several reasons for that. And so we need to identify the reason for that—

Mr. ROYCE. Right, because you could isolate these cases—

Secretary CASTRO. Yes, but it may or may not be the fact that—

Mr. ROYCE. —open bidding.

Secretary CASTRO. —you have more nonprofits bidding.

Mr. ROYCE. Right. Mr. Secretary, thank you. My time has expired.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Missouri, Mr. Clay.

Mr. CLAY. Thank you, Mr. Chairman.

And thank you, Mr. Secretary, for attending today's hearing. I know that you are a busy person and you probably have better things to do than to be harangued by some of us in here.

Let me ask about—countless reports identify the State of Missouri as one of the hardest hit by the foreclosure crisis. My hometown of St. Louis is a classic example of what is going on. In St. Louis you can see firsthand that predatory lending practices disproportionately harmed communities of color and that the housing market's so-called recovery has not led to anything close to a recovery in our communities.

One of the reasons why that is true is because the investors who purchase foreclosed properties in communities of color often fail to maintain those properties, leading to blight and tearing down the property values of every other nearby homeowner in the process. Until now, there has been no specific requirement in the DASP program that prevents investors from harming already distressed communities by failing to maintain or walking away from the properties they purchased from the FHA.

How do the series of changes to the DASP program that you recently announced address these issues?

Secretary CASTRO. Thank you very much for this question and this concern that you are articulating about walking away—folks who hold these notes and these properties walking away and basically leaving the neighborhood to pick up the tab, with everything that is involved in the neighborhood blight that occurs. There is one study from Harvard that showed that when you have that kind of situation, there is between a $2,000 to $20,000 impact on the homes in the surrounding area.

So one of the changes is what we call a no-walkaway provision, which says that when an investor gets ahold of one of these properties, they can't just walk away. They cannot dump the property. One of the things that they can do is they could look for a nonprofit that is willing to take it on and then to do something productive with the property.

But all of this is aimed at ensuring that we promote strong neighborhoods because it is one of these two goals that we have for this DASP program. To the extent that we can implement this no-walkaway provision, I think that, whether it is in St. Louis or many other communities, we are going to have stronger neighborhoods.

Mr. CLAY. And when you think about the investors, wouldn't it make good business sense to want to see those property values go up instead of allowing them to decline and allowing those neighborhoods to deteriorate?

Secretary CASTRO. And this is the idea behind the program, that there should be an economic incentive there. And in most cases—I think in the majority of cases that is true and it does work the way that it should. In other words, it works better than if we had just gone into the foreclosure process.

But sometimes it doesn't work the way that it is supposed to, and this no-walkaway provision is meant as an extra layer of protection for those neighborhoods so that we can have more families that stay in those homes, or if we do have vacant properties something productive can be done with them that will help lift up the value of other people's homes.

Mr. CLAY. Right. I certainly support that approach and will be with you wholeheartedly.

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

Mr. GARRETT [presiding]. The gentleman yields back.

Mr. Hultgren is now recognized for 5 minutes.

Mr. HULTGREN. Thank you, Mr. Chairman.

And thank you, Secretary Castro, for being here today. I appreciate it.

I wanted to get a better sense of HUD's rulemaking agenda coming up for the rest of the year. You have been an outspoken advocate of the Fair Housing Act. I wonder, in the remainder of this year do you anticipate that HUD will issue any additional Fair Housing Act rules or guidance or clarification? And if so, can you tell us regarding which issues?

Secretary CASTRO. Yes. Thanks a lot for the question.

You are correct, I am a strong supporter of ensuring that we have robust enforcement of the Fair Housing Act. I was pleased to see the Supreme Court case last year, Inclusive Communities, that allow the disparate impact standard in Fair Housing Act cases.

We rolled out the AFFH rule, affirmative furthering fair housing, which I see as unfinished business from the 1968 Fair Housing Act.

You asked about guidance or other rules. So we have worked on, and I anticipate that we will continue to work on, for instance, guidance around reentry. We have let housing providers know that they should generally avoid blanket restrictions on someone—anyone who has any kind of criminal record, any kind of conviction. That is not to say that they can't consider that in whether they offer a housing opportunity to someone, but that they need to take a more tailored approach which takes into account the link between that restriction and community safety.

Mr. HULTGREN. Let me jump in here. So it sounds like there is going to be pretty active rulemaking coming up in the next couple of months before the end of this Administration.

Let me shift a little bit because the time goes by so fast. As you have already testified, you are familiar with Section 202 of the National Housing Act of 1934. Isn't that correct?

Secretary CASTRO. Yes.

Mr. HULTGREN. You said yes.

Secretary CASTRO. Yes. I have not memorized it verbatim, but sure—

Mr. HULTGREN. No, but you are familiar with it and you testified earlier that you were. Under the heading, "Fiduciary Responsibility," Section 202 of the National Housing Act clearly states that the HUD Secretary "has a responsibility to ensure that the Mutual Mortgage Insurance Fund remains financially sound."

Do you believe that unilaterally approving changes to the Distressed Asset Stabilization Program that compromise the ability of taxpayers to get more of their money returned is a breach of your Section 202 fiduciary responsibility?

Secretary CASTRO. I would just challenge the premise of that question. These are not detrimental changes to the fund, and so I disagree with the characterization of it as somehow detrimental to the fund.

I believe, in fact, that we are fully carrying out our fiduciary duty both to the fund and also the goal of this program of trying to keep more homeowners from foreclosure.

Mr. HULTGREN. Since its inception, pools of FHA-insured loans in default have been sold through the Distressed Asset Stabilization Program in a competitive manner. The significant changes you have unilaterally made, such as providing preferential treatment for select groups, I believe compromises the ability of taxpayers to get more of their money returned. This also means that my constituents in Illinois will be hit with higher mortgage insurance premiums when they go to purchase a home.

How are nonprofit organizations that are mentioned in section five of HUD's press release but described with no detail qualified as eligible organizations? Did you have a list of organizations in mind when declaring a preferential bidding option pilot?

Secretary CASTRO. Again, Congressman, of course I disagree with this characterization of preferential bidding. They have to meet the reserve price.

However, we have had several nonprofits that have bid. I would be glad to get you a list. I believe that the largest nonprofit—

Mr. HULTGREN. That would be great if you could get us a list.

Secretary CASTRO. —nonprofit bidder has been Mercy Housing.

Mr. HULTGREN. Okay. If you can get us a list of all of the organizations that you had in mind ahead of time.

The Government Accountability Office has reported that FHA was not always following industry best practices when disposing of real estate owned properties, which contributed to the agency earning lower returns on such dispositions compared to the housing GSEs and other parties. What steps is FHA taking to ensure that its distressed loan sales are following industry best practices for such sales?

Secretary CASTRO. Thank you for the question.

We do take seriously that report from GAO. We strive to follow the recommendations, whether it is from GAO or a report from the inspector general at HUD.

We believe that a good example of this are the changes that we have made to DASP and that the proof is in the pudding—the fact that in the last fiscal year alone that we got a 16 percent return that was higher through DASP than we would have through the traditional REO process. Even within that REO process, though, we look at the policy and our procedures to ensure that we are returning as much as we can to the MMI Fund. And I think good evidence is that for the first time in 6 years the fund is actually above the 2 percent required capital reserve ratio.

Mr. HULTGREN. Let me ask you this really quick, with 20 seconds remaining: GAO's work on real estate owned property has also indicated that FHA was not always analyzing the best approaches for disposition activities. What steps has FHA taken to ensure that the MMIF and taxpayers are receiving the best returns through the use of loan sales as compared to the other disposition methods?

Secretary CASTRO. FHA has reviewed its internal approach to REO, as it has to the other types of sales, with an eye toward ensuring that we protect the integrity of the fund. And I'd be glad to follow up with you on more—

Mr. HULTGREN. That would be great.

My time has expired. I yield back.

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.

I thank the ranking member, as well.

And I thank the Secretary for appearing today.

Mr. Secretary, I have a basic premise that I think can add some sense of understanding to the rationale that you are putting forth, and it is that we sleep in houses, generally speaking, but we live in our neighborhoods. And what you are attempting to do is save neighborhoods—and you will save homes as well, but save neighborhoods.

Like Mr. Cleaver, I have seen areas of this country where neighborhoods are lost—completely lost—because the traditional foreclosure process literally obliterated neighborhoods. I applaud you for your efforts to save these neighborhoods because when you save the neighborhoods, you save the schools, you save a tax base.

Many communities in cities that I shall not announce because I would prefer that my colleagues address the concerns of their communities—but many cities have neighborhoods that are just completely, completely obliterated. So thank you for what you are attempting to do.

Mr. Cleaver and I are sitting here and I could continue to hear him say 2 percent, and I agree with him. This is 2 percent of the loans thus far, and this program is still in its infancy. Is that a fair statement? Is it still in its infancy?

Secretary CASTRO. These changes are new. We have been dealing with nonprofits since 2013, and so it is fairly new, sure.

Mr. GREEN. And thus far, give us your rendition of how well you are doing with the program, if you would, please.

Secretary CASTRO. I think, again, through the lens of trying to meet these two goals we are doing well—very well on returning more revenue to the fund, the MMI Fund—$2.2 billion more through DASP than we would have through our traditional real estate owned process, so we are pleased with that. However, we think that we can do more work on the other goal of ensuring that more homeowners actually stay in their homes and avoid foreclosure.

So far about 10,000 folks have been able to modify and stay in their home and 25,000 have avoided foreclosure. And that has a good impact on the neighborhoods that you are talking about. It helps promote strong neighborhoods.

We want to increase those numbers, and what we see is that these nonprofits—our largest nonprofit, for instance, has about 3 times the success rate at actually keeping families in their home. So what we are saying is that in balancing these two goals it is worth expanding the footprint of nonprofits in DASP and that we can accomplish both of these things.

Mr. GREEN. Thank you.

I just want to mention one piece of legislation and then I want to deal with your reputation.

The piece of legislation is H.R. 125, which deals with in-person servicing. This piece of legislation would allow us to have more in-person servicing. I think it is a great piece of legislation. We have found that in-person contact, face-to-face contact, which is required, can make a difference in terms of how people respond to efforts to help them mitigate.

Now, let's look at your reputation for just a moment. You inherited a house on fire, to a certain extent. You were the fireman who came it to put out the fire.

You didn't start the fire. The fire started with these exotic products and some other things that were going on in the economy.

And I find it unfair to somehow accuse you of not putting the fire out quickly enough that Members of Congress started. This fire was started when we allowed certain things to happen, and you came in and you have done a stellar job putting that fire out.

So address this question of your allowing the fund to dip below the 2 percent level, if you would, with the time that I have left.

Secretary CASTRO. Number one, to FHA's credit, it was never part of the problematic types of loans that were part of the housing crisis—the NINJA loans, the no-doc loans. It has always had strong underwriting, and it even made improvements, though, after the 2007–2008 timeframe.

You are right, when I got to FHA we were underneath the 2 percent. When I testified here in early 2015 I said that we would get there within 2 years. We got there within a year.

Chairman HENSARLING. The time of the gentleman has expired.

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

Mr. PITTENGER. Thank you, Mr. Chairman.

Mr. Castro, good afternoon.

Mr. Castro, just for clarification, it was brought up by the other side that—making references to the Bible and that we should be doing this because the Bible tells us to. I have been involved in issues related to poverty for about 40 years and have read extensively through the scripture, and there are about 400 passages that relate to helping the poor in the Bible, but none of them relate at all to the government's role in helping the poor. It is an individual thing.

We have evolved in that, of course, since the war on poverty began in 1965 with President Johnson, and no doubt I am sure his intentions were there to do something good, but we have spent approximately $20 trillion since that time and that poverty needle hasn't moved in a significant way. And I think the frustration you would hear from the American people that I am with is the enormous amount of resources that have, frankly, in many ways had an adverse effect, and the feelings that you are sensing today come in that context.

There has been some communication, and in some measure we have—you have been denigrated by the questioning. Do you feel that way, by our side today? Have the questions been too hard for you?

Secretary CASTRO. What is that?

Mr. PITTENGER. Some of the Members have said that we didn't treat you with adequate respect and you have felt some measure denigrated.

Secretary CASTRO. No, no, no. Of course, I sometimes feel envious of my brother for getting to be a Congressman, but that is about it.

Mr. PITTENGER. I will say to you that the concern we have in representing the taxpayers in this country is that they get the full measure of return for the investments they make. The American people are generous people. We are the most generous country in the entire world through nonprofits and through what we distribute around the world. And I think the concern that the overlay here with housing is found when we see that there is data showing that there are people making $100,000 or more who live in public housing.

I was involved, Mr. Secretary, back in the mid-1990s—we had a pastor in Charlotte named Charles Mack, a wonderful African-

American man, and he would charge hell with a water gun. He would go into these housing complexes and rescue these kids. And he came to me one day and said, "You know, Robert, I really would appreciate your help. I would like to build a place—have a place where I could bring these kids and have afterschool programs, an activity center."

And I had heard that there was a fund up here and so I said—and some friends, we came to Washington and we came up here 4 times. It was called the Hope Fund in the mid-1990s, and we requested $1,200,000. We got the city council's approval and the heads of major companies there, and at the end of the day, after about 8 months we came back with $22 million. Only in Washington could that happen. They ended up razing the previous housing and building a new one.

I think that is the spirit of concern. When we see how you have made rule changes that don't allow for as much accountability, don't allow for competitive bidding out, it clearly is going to raise real concerns. And we feel that we are not being faithful as stewards of the dollars that the American people invest in us.

And I think to me it is somewhat disingenuous to challenge that. What we are looking for is an open, honest conversation.

We have about 80 poverty programs that are funded to the extent of nearly $1 trillion a year, and no one can say that they are a great success. We have an extraordinary amount of dependency now that we didn't have 40 years ago, and I think I really want you to appreciate that context.

And so when you make these kinds of decisions you have to look at the backdrop. Are we willing to have an honest conversation about poverty, about housing, things that we can really do prudently to give greater accountability instead of unilaterally making some policy decisions that you know are going to stir the fire? And we need that kind of support.

Secretary CASTRO. If I might, just a couple of points. Thank you for your comment.

Number one is that there is a negative subsidy on the FHA of almost 4 percent. In other words, we make money for the taxpayers. So it is important to note that. This is a money-making operation for the taxpayers.

Mr. PITTENGER. I can tell you, Mr. Secretary, with all due respect, it is called OPM—other people's money. That is what is concerned is you are operating with somebody else's money and we don't see the sense of accountability for—

Secretary CASTRO. Oh, we certainly do. There is a lot of accountability.

Mr. PITTENGER. My time has expired.

Chairman HENSARLING. The time of the gentleman has expired.

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

Ms. VELAZQUEZ. Thank you very much.

And, Secretary Castro, thank you for the work you do.

Secretary CASTRO. How could I mistake that voice, Congresswoman Velazquez?

Ms. VELAZQUEZ. I am sorry I wasn't here to listen to your testimony, but I was on the Senate side. It is not often that we cross to the other side, but I am sitting as a conferee on the National Defense Authorization Act.

So I just want to take this opportunity to congratulate you and thank you for the work you do, especially for those among us that are most vulnerable in our country.

Last month New York City announced a breakthrough collaborative purchase of FHA distressed loans for the explicit purpose of homeownership retention and affordable housing preservation. It seems that local governments can play a strong role in stabilizing their neighborhoods through access to DASP and through partnerships.

Can you elaborate on how the recent DASP changes can give local government tools to strengthen their communities?

Secretary CASTRO. Yes. Thank you very much, Congresswoman Velazquez, and thank you for your leadership, as well, on these issues of community revitalization.

I spoke earlier of the different pools that exist. We also have what are called direct sales, and direct sales are basically sales of these properties in localized areas to local governments or entities affiliated with the local government. And the entire point there is community reinvestment—to stabilize neighborhoods, to make sure that a local government entity that has the best interests of those homeowners and the taxpayers in mind can get to work at lifting up those neighborhoods and keeping people in their homes.

So as part of these changes we are enhancing that program and we are also going to enhance our outreach to do more of these direct sales. Frankly, sometimes there is a challenge in getting communities interested in taking on these properties because servicing is a challenging business and it is not something that a lot of local governments are used to doing.

But New York City is one good example of a community that has expressed interest in this, and we look forward to working with more communities to make those kinds of direct sales.

Ms. VELAZQUEZ. Yes. And I know that the office of the mayor has expressed interest in purchasing additional delinquent loans from the government through the DASP program. Is HUD currently working with the City of New York to purchase additional loans from the government?

Secretary CASTRO. We are working with the City of New York, and we hope that is fruitful, constructive work that will do good for the homeowners in the neighborhoods there.

Ms. VELAZQUEZ. And as part of the recent DASP enhancements, principal forgiveness is the first option investors must consider offering to borrowers when evaluating them for a modification. What steps will HUD take to ensure that a private investor is doing all he can to work with a borrower to forgive their mortgage principal?

Secretary CASTRO. Yes, so as part of these changes what we are doing is strongly encouraging these—whether it is private or it is nonprofit that takes ahold of one of these notes, for them to offer principal forgiveness as a first option. This is significant.

This is also something that FHFA announced a few months ago, but we are strongly encouraging this. They said that they would like these note-holders to consider it.

We believe that the practical effect of this can be that more homeowners, more families actually get to stay in their homes because of that principal forgiveness being the first step in the new waterfall that is in place—the loss mitigation waterfall. We are excited about that. We are going to monitor how well that works.

Ms. VELAZQUEZ. Okay.

Secretary CASTRO. And as we have done after every note sale, we are going to look at how we can make further improvements in the future.

Ms. VELAZQUEZ. So my understanding is that you announced that you will be improving notification to borrowers that their loan can be sold. Can you explain to us what is the process in which HUD is notifying the borrowers?

Secretary CASTRO. I didn't quite catch your question.

Ms. VELAZQUEZ. As part of a recent enhancement that you announced, it—that you announced that it will be improving its notification to borrowers that their loan can be sold. By what process is HUD intending to notify borrowers that their loan can be sold?

Secretary CASTRO. So there is a letter that goes out when a borrower is 120 days delinquent, and what we decided to do and have proposed in these changes essentially is beefing up that letter, strengthening that letter to notify them of this.

Ms. VELAZQUEZ. Thank you.

Chairman HENSARLING. The time of the gentlelady has expired.

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

Mr. BARR. Secretary Castro, welcome back to the committee.

Secretary CASTRO. It's good to be here.

Mr. BARR. Sir, would you agree that the underlying cause of the financial crisis was millions of Americans in homes with mortgages that they couldn't afford to repay?

Secretary CASTRO. I would say that was one factor, sure.

Mr. BARR. It was at the core of the crisis, though, right?

Secretary CASTRO. That was one factor, sure.

Mr. BARR. Yes. Okay.

I want you to walk through with me the FHA anti-foreclosure waterfall. Before lenders can assign a distressed mortgage to the DASP program, which is the subject of this hearing, the Distressed Asset Stabilization Program, lenders must follow a series of requirements, and I would refer you to the chart that is on the screen here.

So first, lenders must go through informal forbearance, correct? Is that—

Secretary CASTRO. Yes. You have it—

Mr. BARR. First, the lender must go through informal forbearance, then formal forbearance, special forbearance, loan modification, a series of different loan modifications, and then HAMP, before assigning the asset for sale through the DASP program. Is that an accurate reflection of the process?

Secretary CASTRO. It is accurate to say that we have a loss mitigation waterfall, that there is an obligation on the part of the lender to go through that waterfall, and also, to address your second question, that before any note can go into a DASP sale that the lender warrants that they have completed that waterfall. That is correct.

Mr. BARR. Right. And as you see on the right-hand side, the average length of delinquent pre-DASP is 29 months, so it is a pretty long process after default before foreclosure—

Secretary CASTRO. It is about 27 months now, but yes, in that ballpark, sure.

Mr. BARR. But in summary, it is a pretty prolonged, protracted, extensive process to do anything possible to avoid foreclosure, including at the very end of the process assigning these distressed mortgages for sale through the DASP program. And the point I guess I am getting at is, you know a lot of people in Washington—politicians and bureaucrats in agencies—wring their hands about putting borrowers in debt traps, and it looks to me like with this lengthy process that we are putting people in a debt trap.

At what point does HUD—at what point does FHA recognize that these people might actually be in a home that they cannot afford?

Secretary CASTRO. Thanks for that question.

Number one, you are right that we go through this loss mitigation waterfall. That is a traditional part of FHA.

You are also right that there is a commitment to try and keep American families in their homes and that DASP represents about 20 percent of the way that we dispose of properties.

I think what you are missing is—and this is the converse of I think where the advocacy groups are coming from—that you are also not going to get the payoff of DASP if you don't go that—

Mr. BARR. Let's talk about those advocacy groups. And if you could put up another slide here, a website. Are you familiar with this website, sir, the dontsellourhomestowallstreet.org website?

Secretary CASTRO. I have not been on that website, no.

Mr. BARR. Have you heard of this website before today, before seeing it right here?

Secretary CASTRO. Have I heard of the website?

Mr. BARR. Have you heard of the website?

Secretary CASTRO. Sure, sure.

Mr. BARR. Who first notified you of this website and who is the sponsor of this site?

Secretary CASTRO. I have no idea who the sponsor is. I think that I first saw it on Twitter.

Mr. BARR. Have you ever met with any of the sponsors or individuals who are behind this website?

Secretary CASTRO. I don't know who is behind the website so I don't know whether I have ever interacted with them. I am not clear on who put that website—

Mr. BARR. Scroll down, if you would, to the very bottom. It is very critical of you, and if you can go up a little bit further you will see there that it refers to you as a rising star. Many people think of you as a rising star, but they are very upset that you are not including nonprofits in the DASP program sufficiently, and it says that you have been criticized by Elizabeth Warren and Congressman Grijalva and others.

So my question is, did this website influence your decision to make changes to the DASP program?

Secretary CASTRO. It did not.

Mr. BARR. Okay. What did prompt you to make the changes announced on June 30th that would—that set aside preferential bidding for nonprofits if it wasn't this website?

Secretary CASTRO. Yes, well these changes, as I mentioned earlier—many if not all of these changes have been suggested by different groups, including the National Association of REALTORS®, the Urban Institute, Congressmen and Congresswomen, Senators. So what prompted the changes is the next note sale was coming up.

Mr. BARR. My time has expired, but I would like to know what the criteria is for how you select these nonprofits.

I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Minnesota, Mr. Ellison.

Mr. ELLISON. Secretary Castro, I want to say thank you for your service to our country. I think you have been doing a great job for our Nation. You did inherit a tough situation, and in that time you have been responsive.

I can tell you that people in Minnesota are grateful for your work and we appreciate it every time you come to town. And whether they are businesspeople, developers, homeowners, or local government, you have built up a lot of good credibility with us and we thank you for that.

I want to tell you that I support the recommendation that principal reduction should be an early option, a first option for these borrowers. In fact, I have introduced a bill, H.R. 3159, the Preserving American Homeownership Act, and it would require FHA to create a shared appreciation pilot program. This program would gradually reduce the principal balance of some loans in exchange for a share of the increase in the home's value when the home is later sold or refinanced.

Could you share your ideas with the idea of principal forgiveness for investors?

Secretary CASTRO. We think that this makes sense. We think that—and the Urban Institute note yesterday touched on this briefly, as well. We believe that this introduction of a requirement that principal forgiveness go to the top of the new loss mitigation waterfall, that it makes sense for borrowers, that it is going to help keep more families in those homes, and that also it can be accomplished without sacrificing a negative impact to the Mutual Mortgage Insurance Fund.

So this is something that—and I believe that report also notes this is something that some of these lenders were doing already. Some have already been doing it. This is just formalizing that.

So we are going to put this into place; we are going to monitor how it works. My hope is that this is going to have a real impact on keeping more families in their homes, and it will achieve that even as we achieve the other goal of boosting the Mutual Mortgage Insurance Fund. We can do both of those things.

Mr. ELLISON. Mr. Secretary, but the overall goal of just keeping people well-housed, whether they own that home or whether they rent, I just want to note that we have about 11 million families who cannot afford their rent. Families earning under $30,000 a year can barely pay for anything else.

So I just want to say that I think the program you are pursuing here, if you look at it as a part of a overall strategy to get people in good housing, is well-thought-out.

Would you care to offer any of your thoughts on the rental crisis in our country? How serious is it? What should Congress be doing? We like to drill you with what you should be doing.

Secretary CASTRO. Well—

Mr. ELLISON. I wonder what you think a responsive Congress might be doing.

Secretary CASTRO. What we see out there is a rental affordability crisis that doesn't just exist in the usual suspect cities like Boston, San Francisco, or New York, but in towns big and small throughout this country. What we need to do, I believe, is to invest more in those things that will spur greater production, including enhancing LIHTC, which has been a big driver of affordable housing creation.

We are pleased—

Mr. ELLISON. Just for the folks watching at home, LIHTC is—

Secretary CASTRO. Low-income housing tax credit.

Mr. ELLISON. Right, right.

Secretary CASTRO. We believe that more funding for the HOME program, which is in HUD's budget—LIHTC is Treasury, but in HUD's budget the HOME program; investing in more Housing Choice Vouchers and our traditional tools; lifting the cap on RAD, making sure that we have the right tenant protections in place, but lifting that cap on RAD; implementing successfully the National Housing Trust Fund and amplifying that in the future—all of these things I believe are things that we should be doing, that we ought to be doing more of.

I applaud folks in this Congress who have taken strong steps to encourage Congress to do more. We hope that in the budget process that we will see more. There have been some bright spots—on youth homelessness, for instance.

But overall, the amount of resources that we are investing is not by any means meeting the demand that is out there.

Mr. ELLISON. On that front, Mr. Secretary, we do put a whole lot of money in housing if you include the mortgage interest deduction. I wonder what would happen if we looked at reconfiguring that.

Secretary CASTRO. You have been a real leader on this issue, Congressman.

Mr. ELLISON. Thank you, sir.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from New Hampshire, Mr. Guinta.

Mr. GUINTA. Thank you, Mr. Chairman.

And thank you, Mr. Secretary, for being here.

I have a number of things I want to go over, but the first thing I want to ask, because we were both former mayors—when you served as a mayor not much was done in private, correct, in terms of governing your city?

Secretary CASTRO. More specifically, what do you mean by that?

Mr. GUINTA. Non-public. Everything was done out in the open, in front—

Secretary CASTRO. Yes. You have open records laws, FOIA laws, and so forth.

Mr. GUINTA. Really the only thing that was done in private would be essentially issues relating to personnel matters. Is that—

Secretary CASTRO. There are a few other exceptions, as you know, and that depends on the State, but sure, I—

Mr. GUINTA. —like that, but everything else is public.

Secretary CASTRO. —follow the premise of your question.

Mr. GUINTA. Okay. So given that, and given the fact that a letter was sent to you from our chairman back in March about this particular program, I am concerned with the lack of transparency— and you may disagree, but I think Congress has a right to know what decisions and what information went into your decision about making this change on June 30th.

So following up on Mr. Barr's question, my question relative to that website that he posted is was there any staff or any advisor to you in the last 6 months who either verbally or in writing mentioned that website to you as you deliberated on these changes that you made on June 30th?

Secretary CASTRO. Anybody who mentioned—who was an advisor or staff member who mentioned that website, no. They did, of course, mention that the advocates were making calls for changes, sure. But I can't recall anybody ever specifically mentioning that website, no.

Mr. GUINTA. So no discussion with any staff member or advisor who ever mentioned that website—

Secretary CASTRO. Again, there were certainly folks who informed me about what the advocates were saying, and I—

Mr. GUINTA. Advocates meaning the advocates of the website?

Secretary CASTRO. The advocates who were claiming that the DASP program—who were progressive advocates claiming that the DASP program was not sufficiently including nonprofits.

Mr. GUINTA. In your opinion, do you think that those people were associated with that website?

Secretary CASTRO. Oh, I have no doubt that some of them were, but I don't know if there is perfect overlap or how many—

Mr. GUINTA. There was discussion, then, with your staff about that website and the impacts of that website.

Secretary CASTRO. No. I never discussed that website with folks.

Mr. GUINTA. But you discussed the advocates of that website with your staff. Aren't they one and the same?

Secretary CASTRO. In general, I discussed that there were groups who wanted nonprofits to have a greater role, sure.

Mr. GUINTA. See, this is the frustration with Washington. People around the country feel like this is a closed process, that things like these changes that were made, which appear to some to be like no big contracts, feel like it is government that dictates these things, not the general public or the regular person.

Secretary CASTRO. Not at all.

Mr. GUINTA. You have claimed that you want to help that individual individual stay in a home. I don't disagree with wanting to try to help somebody. I served on the NeighborWorks board in

Manchester, New Hampshire. I know you are familiar with that organization. They have a similar one in San Antonio.

But the question I guess I would have is if you are looking at a discount ratio for the private sector versus the nonprofit sector, what would the difference be? Because there is going to be a difference.

Secretary CASTRO. Your question is, if we are looking at the—you are using the term "discount rate?"

Mr. GUINTA. Discount rate on the home.

Secretary CASTRO. I don't think that is the appropriate term to use. Are you saying, for instance, what is our recovery rate on the UPB?

Mr. GUINTA. Okay, what is the recovery rate that you expect for the nonprofits?

Secretary CASTRO. We expect that those recovery rates are going to be very similar to each other.

Mr. GUINTA. But not the same. It is going to be less for the nonprofits, correct?

Secretary CASTRO. I believe in some instances it may be more; in some instances it may be less.

Mr. GUINTA. But overall with a nonprofit it is going to be less, correct?

Secretary CASTRO. We will see.

Mr. GUINTA. In the experience that I had as mayor it was always less with a nonprofit. It was never more, compared to the private sector.

Secretary CASTRO. I think we have a disagreement. Even if that is true, what you get is a nonprofit that is 3 times better at keeping a family housed, and that is also important.

Mr. GUINTA. What is the cost associated for the nonprofit to renovate that home versus the private sector?

Secretary CASTRO. That depends on the home and the community, the level of disrepair—

Mr. GUINTA. Would you be shocked to know that it is at least 30 percent more?

Secretary CASTRO. I think that is case-specific.

Mr. GUINTA. It is not case-specific. Across the board it is at least 30 percent more.

Secretary CASTRO. I would disagree with you on—

Mr. GUINTA. That is the fundamental problem here. When you talk about the $2 billion—or the $1.7 billion that you took in a bailout, and you said you have received now $2.2 billion—

Secretary CASTRO. Congressman, there was no bailout.

Mr. GUINTA. $1.7 billion, the mandatory appropriation, right?

Secretary CASTRO. That was not a bailout. Sure.

Mr. GUINTA. You call it a mandatory appropriation, but you could have returned the money. You decided not to.

Secretary CASTRO. Congress calls it a mandatory appropriation, I don't.

Mr. GUINTA. Okay, well I call it a bailout. Now that money should be returned and you are going to have less money as a result of utilizing this nonprofit mandate.

Secretary CASTRO. We have been successful with the MMIF Fund.

Chairman HENSARLING. The time of the gentleman has expired. The Chair now recognizes the gentlelady from Ohio, Mrs. Beatty.

Mrs. BEATTY. Thank you, Mr. Chairman.

And thank you, Ranking Member Waters.

I also thank you, Mr. Secretary, for being here.

I am going to take a different twist on my opening in saying I am glad you answered the question yes, that the questions weren't too tough for you, and kind of even smiled with it, like a sign of, "that is because I am the Secretary and I am ready." And that made me feel a lot better because I was feeling, like many of my colleagues, that because of some of the articles I read—and, Mr. Chairman, I would like to enter them into the record—that this really was not about—

Chairman HENSARLING. Without objection, it is so ordered.

Mrs. BEATTY. —thank you—that this was really not about you or housing; this was politically motivated.

Many of the articles that my colleague and the chairman on the other side participated in, talked about because your name had come up to possibly be considered as a Vice Presidential candidate. We have also heard statements here that this was such an abrupt change that you made.

Then I hear my colleague say that almost 6 months ago we were talking about these changes because you and many of us were talking about how we welcome the idea of having not-for-profits. We have talked about it in this committee. So it wasn't like this was silent and yesterday you announced something.

So I wanted to make sure, Mr. Chairman, that the public also heard that. Even while we are sitting here a release just came out during this hearing, Mr. Chairman, that you issued.

And I guess my question to you, Mr. Secretary, is going to be hardworking taxpayers—in both of these quoted statements it states that we are doing it against the hardworking taxpayer. Now, I come out of both worlds: I worked in the private sector; and I worked in housing for almost 30-some years as a public housing expert, and I was also very active on boards, chairman of boards of not-for-profits.

And so in my opinion—and I want you to address it, being a mayor and being who you are—hardworking taxpayers, are not-for-profit organizers, chairmen of the boards, and the people that they give or put in these—are they not hardworking taxpayers? I am just stuck that I am hearing that we are doing what you are proposing at the—against or in the deficit to hardworking taxpayers.

So can you share, maybe we can all hear it again, about the benefits of having not-for-profits who are out there every day with the individuals we are talking about? Because we are hearing the statistics and the numbers about how many people have lost their homes that they were put in. Oftentimes, that is because someone didn't do the financial literacy that not-for-profits do a lot more; somebody didn't do the due diligence of explaining to them how they maintain houses.

And I am saying this as an expert in the field of housing of 25 years and relocating people from public housing or those who have lost in the private market their house.

So could you share with us some of the thought process for this as it relates to what we are all supposed to be here committed to at the end of the day—the changes that help the people we serve?

Secretary CASTRO. Yes. Thank you for the question.

Several things: number one, that the MMI Fund is back over 2 percent. It grew by $19 billion in 1 year, which was the fastest growth since 2012. So we are doing—we are meeting our fiduciary duty to the MMI Fund, to the taxpayers.

But secondly, what I disagree with vehemently is that somehow the "taxpayers" are different from these folks who are living in neighborhoods and homes. These are your taxpayers. These are taxpayers in every single district that is represented by the folks on this committee, and so to say somehow that these are two separate people; they are the taxpayers.

And what I resent is that too often, by excluding them from the idea that they are taxpayers, they are made to seem to be deadbeats. They are not deadbeats. They are hardworking Americans who oftentimes have fallen on hard times, and I am proud of the work that we are doing to try and keep them in their homes.

Mrs. BEATTY. Thank you so much.

And in my few seconds, Mr. Chairman, let me just say someone on the other side talked about the Bible; someone also introduced the war on poverty by President Johnson. And what was so interesting about that when he did it, it didn't reduce poverty but it increased the American housing living standards.

Thank you.

Chairman HENSARLING. The time of the gentlelady has expired.

The Chair now recognizes the gentleman from Maine, Mr. Poliquin.

Mr. POLIQUIN. Thank you, Mr. Chairman. I appreciate it.

And thank you, Mr. Castro, for being here again. It's good to see you again, sir.

I represent Maine's 2nd District, Mr. Castro, which is the most wonderful district and State in the country. And I know that you are planning your family vacation to come to Maine, and I wanted to let you know I will meet you at the New Hampshire border to welcome you and your family.

Secretary CASTRO. I should.

Mr. POLIQUIN. I appreciate that, and I know you are on your way.

Mr. Castro, we are a very proud and independent people. We love our homes. And I am very proud to say that about 70 percent of Maine families live in their own homes. That is the tenth-highest in the country.

Now, we want everybody to be able to stay in their homes, and everybody has a role, Mr. Castro. The workers need good-paying jobs, so we need to make sure we help our businesses grow so they have good-paying jobs by keeping taxes lower and energy prices lower, health insurance premiums lower, and all the good stuff that you and I both know.

The regulators have a role. They need to make sure they don't put pressure on banks to extend big loans to families when they know those families can't afford them.

Now, the homeowners themselves and the REALTORS® who deal with them, they have a responsibility to make sure they don't take on too much debt they can't afford.

You have a role, with all due respect, sir. HUD has a role to make sure the Mortgage Insurance Fund is healthy. These homeowners pay into that Mortgage Insurance Fund, and we need to make sure it stays healthy in case there is a problem with this market.

Now, we called you in here because you changed the rules without really notifying us. As I understand it, now, going forward, HUD is going to set aside a bucket of mortgages and they are going to offer them to nonprofit special interest groups. And during this bidding process, Mr. Castro, the nonprofit special interest groups are going to be able to go and take a look at this bucket of mortgages and pick out the ones that they think will be the most profitable for them, and the rest of the for-profit community will be able to bid on the rest.

Now, you have told us here today that the reason you want to set aside up to 10 percent of this mortgage pool for nonprofit special interest groups is that you think that they can do a better job owning these mortgages and helping families stay in their homes. Where is the data?

Show me the data. We are 20 feet away. Show me the data that you have right now, sir, that confirms to you that these nonprofits do a better job than the for-profit companies keeping peoples in homes.

Secretary CASTRO. Thank you for the question. I would be glad to get you that data.

Mr. POLIQUIN. Good. I am right here. Your staff is right here. Do you have the data right now?

Secretary CASTRO. They may have it, sure.

Mr. POLIQUIN. They may have it.

Secretary CASTRO. And if they don't—

Mr. POLIQUIN. You are the one who runs the organization.

Secretary CASTRO. —we will—we have no problem—

Mr. POLIQUIN. Do you have the data confirming the set-aside for nonprofit special interest groups does a better job keeping folks in their homes?

Secretary CASTRO. Yes, so—

Mr. POLIQUIN. Do you have that data?

Secretary CASTRO. —I do have data—

Mr. POLIQUIN. Good.

Secretary CASTRO. —and what the data shows is that with our largest nonprofit bidder, it has had about 3 times the success rate at keeping folks in their homes—

Mr. POLIQUIN. In this program or in general? In this program—

Secretary CASTRO. In this program.

Mr. POLIQUIN. In this program. Good.

Secretary CASTRO. In the DASP program. That is what we are talking about today.

Mr. POLIQUIN. If they are doing such a great job, why not—

Secretary CASTRO. Compared to—if I could just finish—

Mr. POLIQUIN. I am not quite done because I have a minute-and-a-half, Mr. Castro.

Secretary CASTRO. But compared to the average—

Mr. POLIQUIN. Why would you set aside only 10 percent if they are doing such a—

Secretary CASTRO. —for-profit investor.

Mr. POLIQUIN. Why would you set aside only 10 percent if they are doing such a great job? Why not 20 or 30 percent? Why not set aside 30 percent for these special interest groups?

Secretary CASTRO. That is a very good question. Let me tell you why, and let me go back to something that I said earlier. Because we want to take reasonable steps to operationalize these programs in ways that can ensure we meet both of those goals, because we want to test this out further because we are being responsible.

Mr. POLIQUIN. No, I have have to step in here, if you don't mind, Mr. Castro, and say you want to test this out with 10 percent set aside for nonprofits. Okay.

Secretary CASTRO. No, no, no, no.

Mr. POLIQUIN. And if there is a problem—

Secretary CASTRO. What we want to test out is just mechanically, if I can explain, that we are actually doing the pools in a different way now from the way that we were doing them earlier.

Mr. POLIQUIN. And you are giving preferential treatment to some folks in the industry.

Secretary CASTRO. We are not.

Mr. POLIQUIN. Yes, you are. That is exactly what you are doing.

Let's move on to something else in my last 30 seconds, sir, because we can't agree that reduced competition is going to result in a better outcome for our families and to make sure this insurance fund stays healthy. We don't agree on that, but maybe there is something we can agree on.

In April you folks changed another rule, and it deals with manufactured housing. Now in my State of Maine, sir, there are 64,000 families who live in manufactured, housing, and we are very proud of that. That is about one in eight in the State of Maine.

Now, you came out with new rules specifically telling our State how to deal with building a frost-free foundation. I would submit to you, Mr. Castro—and I want to work with you on this, if I may, Mr. Chairman—that there is nobody in the country other than the folks in the State of Maine who know more about winter and how to build a frost-free wall.

I hope we can work such that our State regulators can continue to have the flexibility to do what the law says. Will you work with me on that, sir?

Secretary CASTRO. We look forward to connecting with you on it, sure.

Mr. POLIQUIN. Thank you, Mr. Castro.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Washington, Mr. Heck.

Mr. HECK. Thank you, Mr. Chairman.

Mr. Secretary, thank you so much for being here today. Thank you for your endurance.

Secretary CASTRO. It's good to be here.

Mr. HECK. I want to take you in a slightly different direction and actually ask you to help me solve a great mystery, at least to me, in the market rate housing area. And my premise is that while the wheelhouse of HUD is in affordable housing, we will never be able to deal adequately with that, or we will be hugely complicated in our effort to deal adequately with that, if market rate housing is not working correctly.

And I find that there is a great disconnect between supply and demand. What do I mean by that? We know that supply is not keeping up with demand because home prices are increasing at rates significantly greater than the consumer price index.

We know that, for example, the amount of time on the market, what a REALTOR® would call the inventory, is way below equilibrium in many markets. In the county I live it is less than 62 days; in the next county it is less than 60 days. That means that there is more demand than supply, and I cannot understand why it is supply is not moving faster to keep up with demand.

Now, the way I look at this is that there are three basic elements that go into this. There are three basic inputs. If I am missing one, correct me. If I don't understand any of this, please correct me. I am just looking for some wisdom or insight as a housing expert.

The first is dirt. Do we have enough available land to build on?

We know that can complicate it if there is an excessive regulatory environment, but we also know that in Cities like Dallas in your home State, which are very pro-development zoning areas, or even Seattle, which is generally considered a pro-zoning—pro-development zoning construct, that there is a considerable problem. It cannot be that there is excessive regulation such that dirt is overly constrained.

There is financing, which is, of course, broken down for both the acquisition construction and development side as well as the homeowner side.

And then there is labor. Do we have enough people to pound nails to build new homes?

So there is nothing that we know about the data of these three elements that would help me understand why supply is not keeping up with demand. So, Mr. Secretary, am I leaving something out? Am I not understanding the data? Why isn't it the case that we are building more homes faster than we are? What am I missing, sir?

Secretary CASTRO. I think that, number one, particularly coming out of the Great Recession, as we have been, that you have a confluence of challenges particularly with the first two that you mentioned with respect to land and local regulation, but also financing. And we do, as you mentioned, focus particularly on affordable housing, and I can tell you that with respect to the supply question on affordable housing that if I could do one thing it would be to figure out a way to make those numbers work in more instances, and that is why I mentioned earlier, for instance, expanding the low-income housing tax credit.

The Administration has also been very clear about the need for local governments to look at their regulation and to strike a good balance between being as friendly to reasonable, good development as possible and also protecting their other interests.

In the budget we included a proposal for something called local housing incentive policy grants that would basically incentivize local governments who do a good job of sparking more supply, including for affordable housing, to get some Federal investment, to say, "Hey, you are doing the right thing. You should be doing more of that," and to set an example for other communities.

And the importance of this cannot be overstated. I read a very fascinating article, for instance, a few months ago about Toyota's decision to move their North American headquarters to the suburbs of Dallas because of the lower housing costs there. And so they are doing that, of course. You have a lower housing cost there compared to other places.

However, what is also happening in that North Texas area is that it is normalizing, as compared to other markets of that size, and you are getting more people in there, and so they are facing this question that you have posed of a lack of supply both for affordable and for market rate. And I think it is tied up into the first two issues that you mentioned.

We don't have any magic solution to that, but we do think that there are smart investments that can be made that will spark more supply, and those are some of the things that we have suggested, along with the Treasury and in our budget.

Mr. HECK. Thank you, sir.

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.

And thank you, Mr. Secretary, for coming in this morning and this afternoon.

You testified about the success of this particular nonprofit in this work, and we had asked for data, so I would ask—again, I would echo their requests, mindful of the full data. Numerators are important; denominators are important; percentages, numbers, and qualitative factors, and how this particular nonprofit got access to those particular loans. So all that information I think would be relevant.

I lost track of the number of times that you used the word "believe." "I believe this is going to work."

You testified repeatedly that you believe these programs will not have a negative impact on the Mutual Mortgage Insurance Fund and, consequently, the taxpayers. At the same time, I think you testified that you have sold loans at a lower price to a nonprofit than you might have received from a for-profit, so I would question whether that might be a negative impact right there.

This word "believe" is subjective. Can you be more definitive? Will this program not hurt the fund?

Secretary CASTRO. Yes. I guess one way to say it is that we have confidence that it won't. The reason that we can't tell you definitively, of course, is because these are new changes, and—

Mr. ROTHFUS. It is a risk. There is a risk here, isn't it? There is a risk that it might not.

Secretary CASTRO. There is an inherent risk in that the program may start to see, no matter what is done to the program or if it is left alone, may start to see a decline in its effectiveness compared to REO.

Mr. ROTHFUS. But there is a risk, and I remember the former Democratic chairman of this committee talking about rolling the dice. These programs are putting the taxpayer at risk, and that is the issue.

And let me tie this into something that is going on back home, because we have tight budgets, we have scarce resources. My district is home to an organization called HEARTH, which provides vital transitional housing services to victims of domestic violence.

For more than 20 years women and families in Allegheny County fleeing domestic abuse have had a reliable and caring place that provided temporary shelter and protection from danger. HEARTH has provided hundreds of women of western Pennsylvania and their children with a temporary safe space and the support needed to transition to permanent housing.

HEARTH has a compelling mission and it fulfills a priceless service for the community. That is why I find it troubling to learn that the organization would be cut off from HUD funding in the upcoming fiscal year. This funding represents nearly half of the group's budget.

According to the Allegheny County Continuum of Care, HUD is deprioritizing transitional housing services for adults. Since any application to HUD that includes funding for these services will be viewed as less competitive by the agency, Allegheny County has decided to decline to ask for funding for HEARTH.

This puts the entire organization in danger of closing its doors to vulnerable women and families in western Pennsylvania. I find that unacceptable, and I hope you can provide us with some answers.

Does addressing homelessness caused by flight from domestic violence remain a priority for HUD?

Secretary CASTRO. It is a stronger priority today than it ever has been for HUD. In fact, in the Continuum of Care process that you are talking about we specifically put more points in for housing service providers that are able to address the survivors of domestic violence.

Let me say that this is an issue that we are hearing from transitional housing providers across the country. It is accurate to say that HUD is focused more now on permanent supportive housing. The reason we are doing that is because Congress funded a study called the Family Options Study for HUD to do that looked at, studied, analyzed what are the most effective housing services that we can provide that have the best outcomes.

What it clearly said was that permanent supportive housing gives us the best outcomes for people and the best bang for the buck. So we are emphasizing more in this round permanent supportive housing. So we have done—

Mr. ROTHFUS. But why are persons living in transitional housing still counted as homeless? They can provide housing at this particular place for up to a year.

Secretary CASTRO. I don't think the issue is whether they are still counted as homeless. The issue is if we are talking about the long-term positive outcome for the person, what is the best type of housing for them to get to? And what we have found is that it is to get to permanent supported housing right away. That is why we are emphasizing this.

And it is not just our opinion. That is a study that was an analysis that was done that was funded called the Family Options Study. We are following the data where it has led, and this was the first Continuum of Care process where we have actually implemented the findings of the Family Options Study.

I will say, though, Congressman, that we are trying to work with communities where we see this drop-off in funding for transitional housing to look at if they have other unexpired money—home funding or other money that might go to fill that gap that they would otherwise lose.

Mr. ROTHFUS. But this is how I—

Secretary CASTRO. So we are willing to work with them.

Mr. ROTHFUS. And this is how I tie this back to the issue we are looking at today. There are scarce resources out there, and to the extent that we are putting at risk taxpayer dollars through your program, that hurts other organizations.

I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

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

Mr. VARGAS. Thank you, Mr. Chairman. Again, thank you for the opportunity to make my comments and ask my questions.

I also want to thank you, Mr. Secretary, for being here for quite some time.

And I also want to thank you for all the work you have done in my district. I appreciate that very much.

I do want to ask you about some of the changes that you have made in the investor pool of DASP. I agree very much that we should try to keep families in their homes if they can afford it and at the same time protect the taxpayers. I think those two goals are very, very important.

So could you once again try to explain that to me, how that makes sense to you and your thinking—your thought process in that?

Secretary CASTRO. Yes. Just again, we have seen in this DASP program that we have been able to keep 10,000 families out of—or in their homes and another 15,000 to avoid foreclosure through short sale or some other way that they avoid foreclosure.

We believe that DASP has been positive to the Mutual Mortgage Insurance Fund. It has produced more than $2 billion versus what REO would have produced.

And then the other goal of trying to keep families in their homes, that there is some work we can do. And the evidence we have suggests that nonprofits can do a better job of keeping families in their homes.

So these changes are aimed squarely at both of those goals, and we are confident that we are going to be able to strike that good balance and have a healthy MMI Fund and also keep more families in their homes.

Mr. VARGAS. How do you build, then, the capacity in the nonprofits then? Because I did look at the numbers. The numbers are quite small still for the nonprofits. How do you build that capacity then to make sure that more people can stay in their homes and afford them?

Secretary CASTRO. It is a great question. FHA has reached out to nonprofits, has done webinars, has offered technical assistance to nonprofits.

I also do have to say that we have been very responsible in making sure that these nonprofits have to qualify to be able to bid, just like the investors do. They have a set of requirements that they have to go through so that we certify that they can bid on these pools.

So we are doing the responsible thing. We are ensuring that we help more families stay in their homes, but we are doing it with organizations, with nonprofits that are stable, that do have a capacity.

Probably the biggest challenge is the one that you have put your finger on, which is, how do we get more nonprofits that have that capacity? Because as I mentioned earlier, this is challenging. There are not a lot of nonprofits that do the servicing of loans like this, and it is new for them. But we want to continue to work with them so that more of them can bid on this.

Mr. VARGAS. And when you say, "work with them," how do you work with them? Do you give them expertise? Do you allow people from your office to sort of teach them this process?

It is something they haven't been involved in very often, although some have previously, to be honest with you. I know in California we have had some nonprofits that have done great at affordable housing.

Secretary CASTRO. We certainly engage in outreach, in walking them through the process and explaining the process and the requirements. And then, of course, there is a vetting process that goes into certifying that they can bid on these things.

And we also are doing that with respect to local governments for our direct sales and trying to increase the number of direct sales.

Mr. VARGAS. Okay. And I do want to ask you this as a—and I think I speak for everyone: Please try to do more for veterans—homeless veterans. We still have them out there. In San Diego we still have veterans who are homeless.

I know that you guys have been trying to work very hard on this, but it really is a stain on our Nation when you have these men and women who go out and literally put their lives on the line and then they come back and they live on the street. That is a sin that we have to cure.

Secretary CASTRO. I very much appreciate that. As you know, we are very proud that because of the Mayors Challenge to End Veteran Homelessness and the focus of opening doors that under the Obama Administration between 2010 and 2015, we saw a 36 percent reduction in veteran homelessness.

But we know that 36 percent is not 100 percent, and we want to get to 100 percent. So we are going to keep working hard.

Mr. VARGAS. Please get to 100 percent.

I do want to ask, Mr. Chairman, if I can, unanimous consent to enter into the record the following letters and statements in support of changes to the DASP program that HUD has recently announced: The Urban Institute; the National Fair Housing Alliance;

the Leadership Conference; and the National Association of REALTORS®.

Chairman HENSARLING. Without objection, it is so ordered.

Mr. VARGAS. Thank you, sir. I yield back the balance of my time.

Chairman HENSARLING. The gentleman yields back.

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

Mr. HUIZENGA. Thank you, Mr. Chairman.

And, Secretary Castro, thank you for being here today.

I want to pursue a couple of different avenues, but first I want to ask, do you have a list or database of all the groups with whom FHA met with in your decision-making process?

Secretary CASTRO. As I mentioned earlier, we would be glad to share that.

Mr. HUIZENGA. Okay. So you would be doing that. Okay.

How soon can we get that list?

Secretary CASTRO. Congressman, I will ask my staff after this hearing how long that will take.

Mr. HUIZENGA. You are committing to—

Secretary CASTRO. But I don't anticipate—

Mr. HUIZENGA. —days not months, correct?

Secretary CASTRO. That is right. I don't anticipate that is a long timeframe.

Mr. HUIZENGA. Okay. And I am glad to hear that you have that database and that list.

Do you have a list or database of all the suggestions that you considered and rejected? As you were meeting with these groups I am sure they are coming in with their bullet points and their lists. Can you provide that database for all the suggestions that you received, and then obviously we can see what was rejected.

Secretary CASTRO. I certainly know that there are a set of suggestions of policy changes that FHA has considered, whether it was in the last 6 months or for many years. As I mentioned, several of these changes have actually been advocated for by different organizations and folks for years.

Mr. HUIZENGA. So there has to be some sort of list that you had then said, "Okay, this is in and this is out," right?

Secretary CASTRO. I don't know if I would describe it strictly as a list. There are probably documents that reflect those different considered changes, sure.

Mr. HUIZENGA. Okay. And you are willing to provide that?

Secretary CASTRO. We have those. As long as it is something that we usually in the course of business would give over, sure. I have no problem doing that.

Mr. HUIZENGA. Okay. Because I think it is important to explore really what were those options, and then what was your decision-making process of going through that.

And I appreciate this attempt, as I would take it, as attempt to—for transparency. When you were mayor of San Antonio and there were changes happening at a governmental level—my father was involved in local politics; he served on the city council and as county commissioner, as well, and there is a transparency and an openness for a reason.

There is a reason we have television cameras here today. It is to make sure that the folks who put us here hold us accountable and, in turn, provide that transparency and that ability to understand what is going on.

And I was glad to hear my colleague from California pursue this a little bit. He seemed a little more willing to accept your answer than maybe I am.

My background is in real estate and developing, as well, and I am missing the math on how if you are having a certain number of your anything—could be any kind of widget, but in this case, these very important mortgages that are going on—if they are being sold at a reserve price but the market dictated that they could have been sold at a higher price, I am confused as to how that is bringing more money in, which I think is one of the things that you had said, as I had jotted down. I am curious if you do assert that it has brought in more money than offering—by offering it to these nonprofits at a reserve price versus—

Secretary CASTRO. Yes. So I have said I think a couple of things, number one, that there may be some instances where the nonprofit did end up bidding higher than some of the for-profits did. Secondly, you are making an assumption that the loans that the nonprofits go after, which often are specific to geography, for instance, would have been picked up or bid on by these for-profit investors or how much they would have been bid on—how much value they had to these for-profit investors.

I don't think that we can assume in every case the one-to-one comparison of this—that a nonprofit would always bid lower on that property than a—

Mr. HUIZENGA. Sure. But we don't know that if it wasn't offered out to the marketplace, correct?

Secretary CASTRO. I didn't hear your question.

Mr. HUIZENGA. You won't know that. It is impossible to prove a false negative. You can't prove something unless you go out and test it.

Secretary CASTRO. Well—

Mr. HUIZENGA. I am curious if you have done an estimate of how much return has actually been left on the table by pulling off that certain number.

Secretary CASTRO. Based on these changes, of course we haven't. We haven't yet implemented these in a sale.

Mr. HUIZENGA. So, but going into the reserve. I saw earlier you had a slide saying 2 percent—only 2 percent, I think, were—was the gist I took from that, was going to these nonprofits. So I am curious if there is a number of how much you think that has been left on the table, returned to the taxpayers.

Secretary CASTRO. We would be glad to provide what we have with respect to the return on nonprofit sales versus investor sales, sure.

Mr. HUIZENGA. All right. I appreciate that.

I look forward to having a few documents coming our way, and we will follow up in writing, as well.

So, thank you.

Chairman HENSARLING. The time of the gentleman has expired.

There are no other Members in the queue. Therefore, I would like to thank the witness for his testimony today.

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.

I would ask, Mr. Secretary, that you please respond as promptly as you are able.

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 1:03 p.m., the hearing was adjourned.]

A P P E N D I X

July 13, 2016

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-3000

Written Testimony of Julián Castro
Secretary of the
U.S. Department of Housing and Urban Development (HUD)
Hearing before the House of Representatives
Committee on Financial Services
July 13, 2016

Introduction
Thank you, Chairman Hensarling, Ranking Member Waters, and Members of this Committee, for the opportunity to testify about HUD's Distressed Asset Stabilization Program (DASP). I appreciate your interest in this program, as it serves important functions: offering homeowners a chance to keep their homes, and supporting our Mutual Mortgage Insurance Fund (MMI Fund).

DASP Background
DASP is a component of HUD's 601 Notes Sales Program. This program auctions severely delinquent single family mortgages insured by FHA. The 601 Note Sale Program was first established in 2010 to provide an alternative to HUD's traditional foreclosure and conveyance process. In 2012, HUD introduced the Neighborhood Stabilization Outcome (NSO) component of the program and at the same time coined the Distressed Asset Stabilization Program for loans sold through the 601 program and meeting certain criteria outlined below.

Under DASP, loans are segregated into two types of sales: National sales and Neighborhood Stabilization Outcome (NSO) sales. National sales represent the bulk of the sales. National sales have less restrictive servicing requirements and tend to include more vacant properties. NSO sales involve pools of loans secured by properties in a defined geographic area, have fewer vacant properties, and have servicing requirements that encourage outcomes aimed at helping to stabilize neighborhoods. Specifically, purchasers of NSO pools must achieve certain outcomes for at least 50 percent of their loans. The acceptable outcomes include: re-performance; rental to a borrower; sale to an owner occupant; gift to a land bank; and sale to a Neighborhood Stabilization Program Grantee (NSP) or to a non-profit organization or a loan payoff.

DASP represents the first time HUD decided to sell a significant volume of assets in an auction format. As part of the new DASP program, HUD began stepping up the volume and frequency of loan sales in 2012 in part to address the impact of the Great Recession. As you know, the recession left many lending institutions with a large volume of defaulted assets.

At HUD, we see the DASP as an innovative method of leveraging a public/private approach to deal with a particularly difficult problem: managing the pipeline of defaulted assets resulting from the crisis. Many FHA lenders had backlogs of assets. This was unprecedented for the lending industry and for the country. In fact, there was a lot of concern about how we could avoid a situation in which a glut of foreclosed properties would be dumped into our communities and neighborhoods. Using an auction to sell large volumes of loans—a standard for the private sector—was a relatively new approach for HUD. But it made sense. When compared to the Real Estate Own (REO) process, an auction provides a number of benefits. With REO, the lender must foreclose and convey the property to HUD. This can be a lengthy, expensive procedure. Under the DASP, lenders sell mortgage notes and file a claim without going through foreclosure. Therefore, through DASP, the assets can be sold for more than would be recovered through the traditional REO conveyance process. Also, the auctions allow us to more effectively manage defaulted loans by expediting the process—all while providing additional protections for the homeowners including giving them second chance to keep their home.

Impact on the MMI Fund

With regards to protecting tax payer investments, there is no question the DASP program has been a successful way of managing defaulted assets. Since its inception, the program has contributed to the financial health of the MMI Fund with our best estimate being that DASP added about $2.2 billion in economic value. DASP recoveries were 16 percent higher than recoveries on assets conveyed through the traditional REO process in FY 2015. We have also significantly reduced our pipeline of defaulted assets. In 2012, total HUD REO inventory contained more than 100,000 properties; now there are about 30,000 properties in our inventory. The decline is due in part to the fact that other disposition methods such as the DASP are employed. Thus, a much smaller number of properties end up in our REO pipeline. Additionally, the seriously delinquent rate for the FHA portfolio has declined from 9.58 to 5.86 percent—also due in part to the DASP program. Further, when identifying options for changes to the DASP, we ensured that the new enhancements would continue to benefit taxpayers and the MMI Fund.

The DASP Results in Positive Outcomes for Homeowners and Communities

In addition to improving recoveries, the DASP results in positive outcomes for homeowners. The goal of the DASP has always been twofold: support recoveries to the fund while preserving homeownership and help stabilize neighborhoods. The program is designed so that only loans headed to foreclosure after all FHA prescribed loss mitigation efforts have been exhausted are eligible. Thus, DASP loans are on average 27 months delinquent at the time they are sold. Despite the severe delinquency, DASP transactions have resulted in positive outcomes for a number of borrowers.

Overall, HUD has sold approximately 105,500 loans and 57,400 have been resolved; 43.3 percent of the resolved loans did not end up in foreclosure; instead:

- Nearly 10,000 borrowers whose loans were sold through the program remain in their homes due to their loans becoming re-performing after sale, primarily as a result of loan modifications; and
- Another 14,000 borrowers were successfully offered graceful exit alternatives like Short Sales (over 8,000 borrowers) and Deed-in-Lieu of Foreclosure transactions (almost 6,000 borrowers) which allowed them to avoid the costly and often traumatic effects of foreclosure.

DASP Continuous Improvement

From its inception, HUD has taken a continuous improvement approach toward the DASP. Initially, the DASP represented a novel approach, a new idea, and it was clear that improvements would be necessary to make sure the program was always operating in an optimal manner. As with many of our recent efforts to improve the way HUD does business, we closely track outcomes and make adjustments to improve program delivery. We are committed to constantly evaluating the DASP to improve its effectiveness. To that end changes to the program have been made in advance of every sale. After announcing the DASP in 2012, HUD conducted its first direct sale to non-profits partnered with local governments, and in 2013 HUD began increasing its efforts by hosting webinars and conferences to encourage greater participation—especially from non-profits— in the program. In 2015 we made a series of changes including:

- Extending the time period from six months to 12 months in which purchasers cannot foreclose on properties that are owner-occupied;
- Requiring purchasers to evaluate borrowers for the Home Affordable Modification Program (HAMP), or for a proprietary modification with substantially similar terms;
- Offering pools of loans where only nonprofit groups and units of local governments are eligible to participate;
- Strengthening reporting requirements for DASP sale purchasers; and
- Offering non-profits a first look at vacant properties included in NSO sales.

We have continued this approach of constant innovation with the series of changes announced last month. The most recent changes affect three key areas: protecting communities, encouraging non-profit participation, and improving data transparency. The key changes that support borrowers and neighborhoods include making principal forgiveness the first option purchasers must consider when evaluating borrowers for modifications; limiting interest rate increases to no more than one percent per year after a five-year fixed-rate period; and prohibiting purchasers from walking away from vacant properties. Compliance with these requirements is enforced through the loan sale agreement.

The key changes affecting non-profits include establishing a streamlined bidding option for non-profit buyers; setting a participation target of 10 percent for non-profits and government entities; and strengthening the requirements investors must meet to obtain Neighborhood Stabilization Outcome (NSO) credit when selling to non-profit organizations. Additionally, we are planning to release better data on the outcomes our investors achieve with each loan, as well as some demographic information.

We believe these changes further enhance the DASP. Encouraging principal reduction will help keep more borrowers in their homes, which is in the interest of the broader community, avoiding foreclosure helps neighborhoods. Everyone knows that occupied, well-maintained homes support property values. Limiting interest rate changes improve the likelihood that the borrowers will receive sustainable modifications; this is consistent with Home Affordable Modification Program (HAMP) and like prohibiting 'walk-aways' contributes to neighborhood stabilization. Greater non-profit participation can expand the pool of potential bidders and better data allows everyone to evaluate the program.

All of the changes—made continuously since the program was first introduced—have led to a successful program. The Chairman's July 6 letter asked what deficiencies HUD sought to remedy with this most recent round of changes. Our changes were not aimed at remedying deficiencies, rather they reflect our commitment to continuously improving this program.

First, many of the improvements announced by FHA aligned with the changes announced earlier in the year by FHFA; creating market standardization with the intention of generating greater investor interest. Our changes go further and are aimed at increasing the number and variety of potential investors, *e.g.*, trying to structure pools that will attract both for-profit and non-profit bidders. For a variety of practical reasons, loans are never auctioned one loan at a time. So, it is important to find a way to structure pools to attract a wide variety of investors. And that is exactly what the non-profit pilot is designed to do—provide an efficient way for non-profits to participate by allowing them to select a few loans (up to 5 percent of the pool) that meet their needs as long as the bids meet a fair price for the loans.

This bidding process is structured in a way that is unlikely to diminish the interest of the for-profits in bidding on the larger pool. In fact, we anticipate that the changes will expand the number of people who bid in these auctions. This can have many benefits: the most important of which is increased competition and therefore maximizing recoveries for the Federal government. The changes will also help us promote home-retention and neighborhood stabilization—all of which is good for the homeowners, neighborhoods, and taxpayers.

With respect to the Chairman's question regarding the timeline for working on changes, after each sale there are discussions with participants and interested parties on the sale and suggestions for improvement. As soon as our last sale held on November 2015 was completed, we began thinking about how to improve the program for the next sale.

Our stakeholders regularly make suggestions about methods for improving the DASP. Community organizations, think tanks, and Members of Congress have also shared their views on this program. It is impossible to craft good policy without considering the views of a wide variety of stakeholders and interested parties. Thus, it is a standard practice for us to talk with potential investors and stakeholders about how the program could be improved. Additionally, from time to time, we have conversations with FHFA as they run a similar program for the GSEs.

We believe that gathering views and input from a wide variety of stakeholders is an important part of the process. It helps us arrive at the right kind of changes. For example, a January 6th Urban Institute report states, "We support HUD's efforts to continue to carve out smaller, geographically targeted pools for nonprofits, since only by entering the space can nonprofits build capacity over time to undertake larger projects." That said, we take our responsibility to be objective in our deliberations and decisions seriously. Thus, we considered many different views, and we believe the wide range of suggestions and advice received from the large variety of stakeholders was a crucial element of developing enhancements that make the program even more effective.

I also wish to address your question regarding changes we considered but did not adopt. There were many suggested changes due to the strong interest in the program from a wide range of stakeholders. External stakeholders have suggested changes such as offering non-profits a discount that is below the aggregate reserve prices. It was also suggested that bidders receive preferred pricing if they have a history of positive neighborhood stabilization outcomes. At least one media outlet urged us to place an indefinite moratorium on the program. These suggested changes were not adopted. The changes we did adopt were carefully designed to improve the program, increase participation, and protect borrowers and communities, as well as maximize returns to the Federal government.

Regarding the impact of the changes on the MMI Fund, as you know, I share the Committee's concern that the FHA MMI Fund remain fiscally sound. Reaching the two percent capital reserve ratio last year was an important achievement and evidence that the agency has recovered from the Great Recession. We are committed to continuing our progress in building a strong Fund and our decisions about the DASP program were made with that commitment in mind. We do not anticipate that these changes will adversely impact the MMI Fund; instead, they represent common sense protections that help promote home retention and neighborhood stability, yet are not burdensome on the investor.

Finally, the letter asks about supporting metrics, economic analyses and studies we used to evaluate the economic impact and any additional information HUD used when formulating the changes. There is an abundance of literature on auctions, modifications, and the effect of defaults on neighborhood stability. This literature and considerable practical experience are the basis of the expert judgment of many of the participants in the process. We are planning to work with outside experts to study the effectiveness of DASP. Most importantly, we will monitor the effects of these changes and make adjustments as necessary as part of our continuous efforts to improve DASP.

In conclusion, I am quite proud of the improvements the HUD team made to this program. HUD has shown itself a leader in adopting a novel way to resolve one of the most pressing issues that resulted from the crisis. The GSEs followed FHA in hosting sales of defaulted assets. We have worked hard with lenders, advocacy groups, and investors to design an effective program. Over all, we have sold more than 100,000 loans, helping thousands avoid foreclosure and keeping thousands in their homes. That is a remarkable track record of supporting our mission of preserving homeownership and helping communities. We have done all of that and still contributed over two billion dollars to the MMI Fund. I believe DASP is a great example of how a successful public-private partnership can work.

Thank you for the opportunity to testify today.

NFHA
National Fair Housing Alliance

Testimony of the National Fair Housing Alliance
To the Financial Services Committee of the US House of Representatives
On Changes to HUD's Distressed Asset Stabilization Program (DASP)

July 13, 2016

On behalf of the National Fair Housing Alliance (NFHA), thank you for the opportunity to submit this testimony on recent changes to HUD's Distressed Asset Stabilization Program, or DASP. Founded in 1988, NFHA is a consortium of more than 220 private, non-profit fair housing organizations, state and local civil rights agencies, and individuals from throughout the United States. The voice for equal housing opportunity, NFHA is the only national civil rights organization focused solely on eliminating housing discrimination. Headquartered in Washington, DC, NFHA's comprehensive education, advocacy and enforcement programs help provide equal access to apartments, houses, mortgage loans and insurance policies for all residents of the nation.

NFHA welcomes the changes to DASP that HUD announced recently, and hopes that HUD will take additional steps to strengthen the program, increase its transparency and ensure that it operates in a fair and non-discriminatory manner.

DASP, along with similar programs at Fannie Mae and Freddie Mac, is a significant component of the federal government's response to the lingering effects of the foreclosure crisis. When it was first announced, DASP was characterized as a win-win-win program for the Federal Housing Administration (FHA), investors, and struggling homeowners. It would allow FHA to save money and shore up its insurance fund by getting delinquent loans off its books without the high costs associated with foreclosure, while simultaneously allowing investors to purchase assets at an attractive price with the potential to earn a good return, and offering homeowners who were struggling to make their monthly mortgage payments the possibility of more robust loss mitigation options. Although not a stated purpose of the program, it is worth noting that DASP also holds the potential to provide a lift to local communities that were hard hit by foreclosures by minimizing the number of foreclosures within their jurisdictions, thereby preserving housing values, shoring up the local tax base, and eliminating some of the costs – police, fire, inspections and others – that local governments incur to deal with the problems associated with vacant and foreclosed properties. These are real costs to real taxpayers, and NFHA believes that they should be part of the analysis of the costs and benefits of DASP and similar programs, on equal footing with the costs and benefits to the federal government.

For a number of reasons, NFHA has been especially interested in the potential that DASP offers to help homeowners restructure their mortgages so they can hold onto their homes and avoid foreclosure. First and foremost of these is the work that we have done over the last seven years investigating the maintenance, management and marketing of foreclosed properties (also known as "Real Estate Owned," or REOs) by major banks, the GSEs, and several of the largest the field service companies that are responsible for the on-site work of managing these foreclosed homes. During this time, along with 22 of our member fair housing organizations, we have inspected more than 6,000 foreclosed homes in 34 metropolitan areas covering more than 60 cities from coast to coast, comparing the treatment of properties in communities of color with those in predominantly white communities. Our inspections have found that REO properties in communities of color are significantly more likely to have multiple defects (such as holes in the roof, falling or missing gutters, broken windows, unsecured doors, large accumulations of trash, yards that are overgrown, and the like) than those in white communities. They are less likely to have professional "for sale" signs that would indicate that they are for sale, and if they have for sale signs at all, they are much more likely to be marketed as distressed properties. In contrast, in white communities, a person driving down the street would be unlikely to be able to distinguish the REOs from any other properties on the market based on their physical condition, curb appeal or signage. The result of this disparate treatment is that REOs in communities of color linger on the market longer and ultimately are more likely to be purchased by an investor than an owner-occupant. While they remain unoccupied, they depress the value of surrounding homes, are magnets for unauthorized entry and illicit activity, and present a host of problems for the nearby residents and local government.[1] Our investigations have underscored just how important it is to take all possible steps to prevent homes from reaching the point of foreclosure. DASP offers one way to accomplish this goal.

NFHA is also keenly aware of the impact of the foreclosure crisis on communities of color across the nation. These communities were targeted for unsustainable subprime loans and subsequently experienced high levels of foreclosure. As a result, the remaining homeowners in these communities have suffered tremendous loss of wealth. By one estimate, homeowners in communities of color lost $1.1 trillion in wealth – half of all the wealth lost as a result of the foreclosure crisis.[2] The impact of this loss will be long-lasting, affecting not only the current generation of homeowners of color, but also future generations. It is critical that we do all we

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[1] See NFHA's most recent report on its REO investigations, "Zip Code Inequality: Discrimination by Banks in the Maintenance of Homes in Communities of Color," August 27, 2014, available at http://www.mvfairhousing.com/pdfs/2014-08-27_NFHA_REO_report.PDF.
[2] See "2013 Update: The Spillover Effects of Foreclosures," Center for Responsible Lending, August 19, 2013, available at http://www.responsiblelending.org/mortgage-lending/research-analysis/2013-crl-research-update-foreclosure-spillover-effects-final-aug-19-docx.pdf.

can to prevent avoidable foreclosures and minimize the downward drag they exert on communities of color and the economy overall. While FHA loans did not cause the foreclosure crisis, they are heavily concentrated in the same communities that were so hard hit. This means that DASP and its counterparts at the GSEs can play an important role in stabilizing these communities. It is in the best interests of HUD, taxpayers, and local communities for it to do so.

Some of the changes that HUD announced recently should help ensure that more borrowers whose loans are sold through DASP receive modifications that are affordable and sustainable. Reports from the field indicate that some of the investors who have purchased DASP loans are offering borrowers modifications that may provide some principal forbearance and short term payment relief by lowering interest rates, but are likely to cause payment shock when the interest rates rise after five years, and will have large balloon payments at the end of the loan term. Such modifications do not preserve homeownership. They merely kick the can down the road and should not be permitted. The new requirements that investors include principal forgiveness at the top of their loss mitigation waterfalls, hold interest rates fixed for five years and limit the amount by which rates can increase annually after the five-year mark should help to make DASP modifications more sustainable. This is an outcome that NFHA strongly supports.

NFHA also welcomes the changes that will promote greater neighborhood stabilization, such as the prohibition on "walk-aways" and the emphasis on making a larger share of the loans available to non-profits and local governments. The overwhelming majority (97%) of the loans sold through DASP to date have been sold to for-profit investors, whose primary focus is on their bottom lines. Mission-driven non-profits and local government entities, in contrast, place greater emphasis on preserving homeownership and stabilizing neighborhoods, to the benefit of the larger community. We hope that the modest steps that HUD has announced: preferential bidding for non-profits on up to 5% of the loans in any given pool, streamlining direct sales to local governments, and aiming to sell 10% of the DASP loans to non-profit organizations and local government entities, will shift the balance a bit farther toward this broader focus. We hope that HUD will take additional steps to increase the loans sold to these buyers in the future.

NFHA supports the steps that HUD has announced to provide greater transparency and help ensure fairness in the DASP program. Providing pool level data on loan performance and outcomes will enable both HUD and the public to better understand how well the program is living up to its intended goals, which investors are performing responsibly and what approaches to resolving loans are most promising for meeting the triple bottom line. We are especially pleased that HUD will provide pool-level demographic data on loan sales. This is an important step toward providing a clearer picture of what types of borrowers are affected by DASP. However, HUD also has the responsibility to ensure that the program is administered in a fair and non-discriminatory fashion. In order to accomplish this, HUD must also monitor investor performance and report demographic information on loan performance and outcomes.

Without such information, neither HUD nor the public can have confidence that women and borrowers of color are being treated fairly by the investors who purchase their mortgages through DASP.

One concern that NFHA and other advocates have raised is that too many loans are being sold through DASP while they are in the middle of the loss mitigation process. Housing counselors and borrowers' attorneys have reported many cases of clients who were under active consideration for a loan modification only to be told that their loans had been sold through DASP and the loan modification offer was being rescinded. These borrowers have had to start the loss mitigation process all over again with the new investor, making them more – rather than less – vulnerable to foreclosure. This problem could be minimized by providing notice to the borrower at the point at which his or her loan is to be included for sale in a DASP pool. This would enable those borrowers to alert HUD to the fact that they are in the middle of loss mitigation and their loans should not be sold. The notice that HUD has just announced, informing borrowers that their loans *may* be sold at some unspecified point in the future, is not sufficient.

NFHA believes that DASP and similar programs have the potential to play a useful role in minimizing foreclosures, stabilizing neighborhoods and strengthening FHA while also providing a reasonable return to investors. However, in order to achieve this potential, DASP must be deliberately structured to address all of these elements, and must align the interests of all parties. If it fails to do so, borrowers and local communities will lose out, as we have learned only too painfully from the foreclosure crisis. The changes to DASP that HUD has announced move us in the right direction. But additional steps are needed, and we encourage HUD to take them.

Thank you again for the opportunity to submit this testimony. Please contact either Debby Goldberg (dgoldberg@nationalfairhousing.org) or Lisa Rice (lrice@nationalfairhousing.org) if you have any questions or need further information about any of our recommendations.

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July 8, 2016

The Honorable Julián Castro
Secretary
U.S. Department of Housing and Urban Development
451 Seventh Street, S.W.
Washington, DC 20410

Dear Secretary Castro:

On behalf of the more than 1.1 million members of the National Association of REALTORS® (NAR), I thank you for listening to NAR's concerns and for making enhancements to the Distressed Asset Stabilization Program (DASP) announced on June 30, 2016. While these enhancements are steps in the right direction, NAR urges the Federal Housing Administration (FHA) to further ensure investors work with local real estate professionals and other community partners in finding successful outcomes for the affected borrowers and their communities.

The National Association of REALTORS® (NAR) is America's largest trade association, including our eight affiliated Institutes, Societies and Councils. REALTORS® are involved in all aspects of the residential and commercial real estate industries and belong to one or more of some 1,200 local associations or boards, and 54 state and territory associations of REALTORS®.

NAR is encouraged that FHA is taking action to keep owner-occupants in their homes and protect the integrity of our neighborhoods. The release of performance and outcome data for each pool of loans, as well as demographic data on the sales, addresses NAR's previous request that FHA should collect and share more detailed performance data about the note sale programs to improve transparency in the program. NAR is pleased that more note sale pools will be set aside for nonprofits, as this recognizes NAR's request that community partners be more involved in the purchase of note sales.

While NAR appreciates FHA's efforts to improve DASP, NAR remains concerned about investor plans for DASP properties. Recent reports of investors forcing borrowers to sell their homes through the investor's online auction site, even in situations where a borrower and their real estate agent found alternate buyers for a direct sale of the property at a higher price, demonstrate clear conflicts of interest. Auction sales are generally problematic for first-time or unsophisticated bidders like the typical family looking to purchase a home, as the majority sell the property "as-is" without providing a buyer an opportunity to assess the current state of the property and can contain hidden fees. NAR urges FHA to review investor plans for conflicts of interest that could lead to harmful outcomes.

Homeownership helps families to build wealth and creates strong communities. The current inventory of affordable homes is incredibly tight, with many lower-income and first-time homebuyers unable to purchase in today's market. Non-occupant purchasers of distressed properties will often rent out those homes without providing proper maintenance or necessary rehabilitation. In some cases they fail to pay property taxes, further harming the community. These are the same houses that lower-income and first-time homebuyers would purchase, but are not given the opportunity to do so. NAR urges FHA to compel investors to prioritize sales to owner-occupants following foreclosure, in order to promote neighborhood stabilization and support prosperity in a community.

NAR once again thanks FHA for listening to NAR's concerns and suggestions in reforming DASP. While the current enhancements to the program will help in preventing further blight in hard-hit communities, NAR presses upon FHA to make investors work toward outcomes that keep owner-occupants in their homes and keep home ownership functioning in high foreclosure neighborhoods. NAR members are committed to working with FHA to promote homeownership and preserve affordable housing options.

Thank you again for your time and consideration. If I may be of any assistance to you, please do not hesitate to contact me or our Regulatory Policy Representative, Sehar Siddiqi, at (202) 383-1176 or SSiddiqi@REALTORS.org.

Sincerely,

Tom Salomone
2016 President, National Association of REALTORS®

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HUD's Recent Changes to the Distressed Asset Stabilization Program: A Positive Development

Laurie Goodman

July 2016

In March 2016, Chairman Jeb Hensarling of the House Financial Services Committee and Chairman Richard Shelby of the Senate Committee on Banking, Housing, and Urban Affairs, sent a letter to Secretary Julián Castro of the US Department of Housing and Urban Development (HUD) and Director Mel Watt of the Federal Housing Finance Agency, concerning the HUD and government-sponsored enterprise nonperforming loan (NPL) sales programs. The letter expressed concern that the Federal Housing Finance Agency and HUD are contemplating changes to their NPL sales programs that would reduce private sector participation. The letter promised "immediate hearings...to investigate any changes made in these programs to undermine their specific purpose or otherwise make unwise use of taxpayer dollars." The hearing on "HUD Accountability" scheduled for Wednesday, July 13, 2016, concerns the latest round of changes in HUD's NPL sales program announced on June 30, 2016.

The Hensarling-Shelby letter quoted an Urban Institute research report I coauthored with Dan Magder to propose that the bulk note sales program and private sector participation therein has reduced the potential loss to taxpayers and helped homeowners (Goodman and Magder 2016).

Our analysis relies on the following facts. Loans sold under HUD's Distressed Asset Stabilization Program (DASP) are on average 29 months delinquent, have been certified to have exhausted every loss-mitigation option that HUD can offer, and would end in foreclosure (except for the note sale program). The wider toolkit that private note buyers can offer borrowers, which the buyers employ to maximize the value of these assets, results in many borrowers receiving modifications and others receiving a short sale, often with moving expenses and some funds to get them started in a new location. Both of these outcomes are preferable to foreclosure. The general alignment of interests between private sector investors and homeowners has been the key to the success of this program.

The paper also suggested several improvements in the program, most of which are included in HUD's new guidelines. Below, I explain why I believe the HUD changes are largely positive and do not pose a material threat to HUD's Mutual Mortgage Insurance Fund or to taxpayers.

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Program Improvements: No Walkaways, Better Disclosure

The paper's first suggestion included not permitting investors to walk away from the most challenging loans in these NPL pools, a strategy that leaves vacant and abandoned houses in the neighborhood. We argued that investors who purchase these pools should be responsible for resolving all loans in the pools they purchase. Investors can donate the homes to a nonprofit or land bank, but they should also cover the funds needed for demolition, if necessary. Thus, some of the loans actually have a value less than zero. The requirement for no walkaways may have a small effect on the pricing, but it will likely be very small, as there are very few loans that would be affected; using upfront screening, HUD tries to avoid putting loans with low value into these pools. Moreover, there is an offsetting value to the taxpayer because this requirement will protect communities and support the value of neighboring homes, including many that carry Federal Housing Administration–insured mortgages. A recent report by the Center for American Progress confirms that loan sales occur in neighborhoods with a disproportionate reliance on Federal Housing Administration financing (Edelman, Zonta, and Rawal 2016). Government-sponsored enterprise loan sales already have this no-walkaway requirement.

The paper also suggested greater data transparency on the NPL sales. In this new round of changes, HUD has committed to release performance and outcome data for each pool that is sold. Previously, HUD provided data only at the sale level, and each sale had multiple pools bought by different investors, a practice that made it difficult to assess whether some investors were doing a better job than others. HUD has also committed to release demographic data for the first time.

The Additional Restrictions on Modifications Should Have Little Cost

We also pointed in our paper out that putting additional restrictions on loans can result in a worse offer price for these loans. However, the two new restrictions that are being put on the loans should not be costly. The restrictions are as follows:

1. When evaluating a borrower for a modification, principal forgiveness is the first option borrowers must be offered if they qualify
2. Provide payment-shock protection by requiring the initial rate be fixed for five years and increased by no more than 1 percent per year thereafter

Many successful investors have already incorporated these rules in their practices because it is in their economic interest to encourage borrowers to pay their modified mortgage. As we pointed out in the paper, foreclosure is the worst outcome for everyone: it ties up the investor's funds for a long time, and the eventual sale price is not as favorable as if the loan was performing again. If the investor can give a borrower a sustainable modification containing a principal reduction, both the borrower and the investor are better off. Similarly, it does not serve the investor to get the loan performing for a short time and then have the rate reset to a level the borrower cannot afford and have the borrower default at that time.

Many investors offer principal reduction or payment-shock protection, and it doesn't cost HUD much to require this. In most of these auctions there are many bidders, and the price difference between the winning bid and the runner-up (the *cover bid*) is quite small. We believe most investors with winning bids have incorporated these changes; and in those cases where the winning bidder has not, the cover bid probably has, and the cost to the Federal Housing Administration would be minimal. And even if the winning bid does not currently offer these borrower protections the cost of offering these tweaks to the modifications is very small.

Additionally, FHFA already has both these rules in place for GSE auctions, and most buyers participate in both programs. Moreover, standardizing the rules between the programs will make it easier for NPL buyers to participate in both programs, and could increase the number of bidders and bids.

First Look for Nonprofits

While there is anecdotal evidence that nonprofits are better able to keep borrowers in their homes than for-profit bidders (nonprofits do not need to earn the same return on capital, so they can often afford to do deeper modifications), we note in our paper that nonprofit capacity for purchasing large quantities of these loans is very limited. The paper supported efforts to carve out small, geographically targeted pools for nonprofits, which encourages the nonprofits to build capacity. I am also supportive of the pilot contained in the last round of changes to give nonprofits a first look and the right to buy up to 5 percent of a national pool, as long as they meet the reservation price set by HUD (the methodology for setting the reservation prices was reviewed by the Office of Management of Budget). This should increase the number of nonprofit bidders; the more nonprofit bidders, the stronger the price, as only 5 percent of the pool will be sold in this manner.

The cost of this change to taxpayers would be minimal. Assume that nonprofit investors could bid on the entire 5 percent of the pool, and they could buy these loans at a price 10 percent below a for-profit investor; taxpayer proceeds would decline by up to 0.5 percent. If the price was 20 percent below the for-profit investor, the proceeds would decline by 1 percent. The cost of these changes is much lower than the change HUD made 18 months ago to extend the foreclosure moratorium after auction from six months to a year, increasing the time before investors could move to foreclose properties that were vacant, a help to no one (we estimated in our paper that this change cost HUD and taxpayers about 6 percent).

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Ongoing Discussion on Improving the NPL Sales Program

The recent changes are the product of an ongoing discussion about how to improve the NPL sales program that has played out over several years. Our January 2016 paper was not the first to look at the DASP program. There have been a series of papers from the Center for American Progress (Edelman, Gordon, and Desai 2014; Edelman, Zonta, and Rawal 2016) and panels and events on this topic, including one we held on May 18, 2016, at the Urban Institute in conjunction with CoreLogic.[1] This panel included a HUD representative, an FHFA representative, an advocate, and an investor.

HUD has taken to heart suggestions to improve the DASP, including suggestions delivered through research papers, seminars, panels, and informal meetings, and we applaud HUD for their responsiveness.

Note

1. "HUD and GSE Nonperforming Loan Sales: Are Further Improvements Necessary?" Urban Institute, accessed July 11, 2016, http://www.urban.org/events/hud-and-gse-nonperforming-loan-sales-are-further-improvements-necessary.

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The Leadership Conference

July 13, 2016

The Honorable Jeb Hensarling, Chairman
Committee on Financial Services
United States House of Representatives
Washington, DC 20515

The Honorable Maxine Waters, Ranking Member
Committee on Financial Services
United States House of Representatives
Washington, DC 20515

Re: Today's Hearing on "HUD Accountability" and Distressed Asset Sales

Dear Chairman Hensarling and Ranking Member Waters:

On behalf of The Leadership Conference on Civil and Human Rights, a coalition of more than 200 national advocacy organizations, we write to express our strong support for the Department of Housing and Urban Development's (HUD) June 30 changes to its Distressed Asset Stabilization Program (DASP). We believe that the policies announced by HUD will go a long way in helping borrowers stay in their homes and will support neighborhoods that are struggling the most to recover from the 2008 mortgage crisis.

We are troubled that some Committee members, as evidenced by the Committee's July 7 press release announcing today's hearing, and a March 21 letter by Chairman Hensarling and Senate Banking Committee Chairman Richard Shelby (R-AL), have objected to HUD's most recent changes to the DASP program. While we are confident that HUD Secretary Julian Castro will more than adequately address the concerns that have been raised, we would like to add our perspective on why the changes are so important to the communities we represent, to the housing market, and to taxpayers in general.

To date, the housing assets that have been sold through DASP have been heavily located in communities of color, communities that lost a disproportionate share of wealth during the foreclosure crisis. According to a study by the Center for American Progress of loans sold through DASP in national auctions between 2012 and 2014, approximately 63 percent of notes were located in communities with higher-than-average rates of underwater borrowers. About 69 percent of loans came from communities with unemployment rates of more than 8 percent, and 84 percent of loans came from communities with a percentage of minority population that is higher than the national median.

For some time, The Leadership Conference and its coalition partners have voiced concerns about the implementation of the DASP program. The overwhelming majority of loans sold under the program – more than 98 percent from 2012 to 2016 – have been purchased by for-profit investment firms. During that time, some of these firms have failed to properly maintain foreclosed properties, or have even walked away altogether from some vacancies. Such actions contribute to neighborhood blight, reduced property values in neighboring

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homes (which often increases the likelihood of losses spreading to FHA-insured loans on these homes), increased rates of crime, and drained local governments of scarce financial resources.

In response, HUD's June 30 changes to the DASP program make several key reforms that will benefit homeowners, neighborhoods, and taxpayers alike. First, HUD will require all investors to consider principal reduction as the first option when offering loan modifications to struggling borrowers. This is important because too many homeowners still owe more money on mortgages than their homes are actually worth, and principal reduction is often the only way to stave off more significant losses – both on the loan itself and to surrounding homes – in the long term. Second, HUD will slightly increase the number of DASP sales to qualified non-profits and local governments. While the overwhelming majority of DASP loans will still be sold to private for-profit investors, local non-profits and governments bring with them a significant understanding of – and more importantly, a greater stake in – the communities that will be affected by loan sales. Finally, HUD will make other changes to ensure that borrowers will be more likely to stay in their homes, including through the reduction of "payment shocks" on loan modifications and a prohibition on investors "walking away" from lower-value homes, which contributes to neighborhood blight.

While we cannot expect any program to eliminate all foreclosures, it ought to be abundantly clear by now that maximizing sustainable owner-occupied housing is the ideal outcome in any situation, not only for individual communities but for HUD's bottom line as well. At a time in which minority homeownership remains significantly lower than the national average, The Leadership Conference and its coalition partners are especially pleased that HUD is taking steps to keep families in their homes. As an organization that has long urged reforms to the DASP program, we strongly disagree with any allegations that HUD's announcement is somehow rooted in election-year politics. This is simply good policy.

Thank you for the opportunity to present our views in light of today's hearing. If you have any questions, please feel free to contact either of us, or Senior Counsel Rob Randhava, at (202) 466-3311.

Sincerely,

Wade Henderson
President & CEO

Nancy Zirkin
Executive Vice President

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