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LEGISLATIVE PROPOSALS IN THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT'S FISCAL YEAR 2011 BUDGET REQUEST

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

ON

DISCUSSING LEGISLATIVE PROPOSALS IN THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT'S FY 2011 BUDGET

APRIL 15, 2010

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CONTENTS

THURSDAY, APRIL 15, 2010

	Page
Opening statement of Chairman Dodd	1
Opening statements, comments, or prepared statement of:	
Senator Shelby	4

WITNESSES

Shaun Donovan, Secretary, Department of Housing and Urban Development	5
Prepared statement	32
Response to written questions of:	
Chaiman Dodd	48
Senator Shelby	50
Senator Schumer	51
Senator Menendez	54
Senator Bennet	54
Senator Crapo	60
Senator Corker	61

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

Prepared statement of Marty Shuravloff, Chairman, National American Indian Housing Council	66
Letter from the National Association of Housing and Redevelopment Officials	71

LEGISLATIVE PROPOSALS IN THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT'S FISCAL YEAR 2011 BUDGET REQUEST

THURSDAY, APRIL 15, 2010

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee convened at 9:39 a.m. in room 538, Dirksen Senate Office Building, Christopher J. Dodd, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN CHRISTOPHER J. DODD

Chairman DODD. The Committee will come to order this morning, and let me welcome all of you who are gathered here in our hearing room this morning, my colleagues who are here, as well, and, of course, to welcome the Secretary of Housing. We are going to have a hearing this morning on legislative proposals in the Department of Housing and Urban Development for their 2011 budget request, and we are delighted, Mr. Secretary, to have you with us once again in the Committee hearing.

I am going to take a couple of minutes with some opening comments. I will turn to my friend and colleague from Alabama, Senator Shelby. There are not a lot of us here, so Jack and Jim, if either of you want to make a couple of opening comments, I would be glad to entertain those, as well, before we hear from the Secretary if you so desire.

Let me first of all begin by thanking the Secretary for being with us again today. I have had the pleasure of traveling with him in my own State, as I am confident some of you have, as well, meeting with housing authorities and some of the families and community leaders on the front lines of the foreclosure crisis that we have been dealing with over the last 38 or 39 months that I have been Chair of this Committee.

I know the Secretary is passionate about creating affordable housing and economic opportunity for all Americans and I am looking forward to this discussion about legislative proposals in the HUD budget request. Secretary Donovan brings us this budget and these legislative priorities at a time of great need, as we all know, for American families and the local governments they rely on for basic services across our country.

The March 2010 unemployment rate stood, as we all know, just shy of 10 percent, 9.7 percent, an improvement over previous months, but still way too high, as all of us would acknowledge. Unemployment, of course, puts a severe strain on families' ability to afford housing. And sadly, recent HUD data indicates a troubling increase in family homelessness. Homeless service organizations in my State alone, and I am sure in States around the country, report that shelters are full, way beyond their capacity today, tragically.

In Connecticut, organizations coordinating the Homeless Prevention and Rapid Rehousing funding provided by the Recovery Act tell me they are overwhelmed with requests for assistance. With 48 of the 50 States facing budget shortfalls and local governments struggling in the face of declining revenue, there simply aren't resources available at those levels to address the problem properly.

And that is why HUD's work is so important. For far too many American families, these Federal programs alone will make the difference between hope and homelessness, between prosperity and poverty.

The Transforming Rental Assistance, TRA as it is called, proposal is an effort to streamline HUD's rental assistance programs, preserve affordable housing, and provide more choices for families receiving assistance. In the initial stage, as I understand it, this proposal would convert 300,000 units of public and assisted housing to Rental Assistance Contracts better positioned to leverage private funding. I know that this proposal is still under development, but I hope you can update us on its progress.

And let me just add here, if I can, editorially, I want to commend you, Mr. Secretary. You know, one of the things we don't get enough of in this town is creative and imaginative thinking, how to address issues. I was going over last evening very late the estimated cost of just maintenance of public housing, and the number you hear is $20 billion, but many tell me that number is way below what it actually may be when you consider the units around the country. We need to be more creative. We are never going to have an appropriation year—unfortunately, I might add, others may disagree with this—to have a maintenance of the kind of dollars we need to put that housing stock in better shape.

So being creative about how you do this, convert this in a way that gives some leverage and some opportunity for equity to move into this thing, I commend you for. I think it is the kind of an idea, as you develop this, and working with all of us up here, you might develop some very broad bipartisan support for what you are achieving. And I know there are groups out there that are anxious about what you are suggesting. I commend you for it. I think it is terrific we have got someone in this job who is trying to figure out ways creatively to sort of get this stuff in a better position than it is in. Others may want to comment on this, but I just have a lot of high regard for what you are suggesting. As I say, I know it is in development. We look forward to hearing from you today about it.

I am also very excited to know more about your Choice Neighborhoods Initiative, which would expand HOPE VI public housing revitalization efforts to a more comprehensive approach that also includes assisted housing and critical community facilities. Meanwhile, the Catalytic Investment Grants will provide competitive funds to communities embarking on economic development projects.

The Secretary's budget also proposes recapitalizing the FHA Mutual Mortgage Insurance Fund. FHA is playing an important role in our housing market during this downturn and I am interested in the Secretary's thoughts on how we can strengthen not just the program's fiscal health, but its risk management and enforcement tools to protect consumers going forward.

I would also like to hear more about the recently announced changes to programs like the HOME Affordable Mortgage Program and the FHA that helps out underwater borrowers.

Finally, I would like to offer a few thoughts, if I can, on some of the numbers that accompany the legislative proposals in the HUD budget. First of all, Mr. Secretary, on behalf of the families helped by these programs, I want to thank you and your office and your staff for the efforts to maintain funding levels in the Section 8 tenement-based voucher and project-based assistance programs as well as the Public Housing Operating Fund. In addition, I welcome the Administration's support for $1 billion to capitalize the Housing Trust Fund to create and preserve affordable housing for the lowest-income families in our country. I strongly support this funding and want to work with you and the Administration to see to it we get it done before this Congress adjourns.

And it wouldn't be a Banking Committee hearing if I didn't mention my excitement, as well, regarding the Sustainable Communities Initiative, closely aligned with the legislation I have offered, the Livable Communities Act. This important initiative, which helps communities develop integrated transportation and development plans, would greatly benefit from the $150 million requested in the HUD budget.

However, I am concerned about some of the proposed cuts, and I would be remiss if I didn't mention them to you, as well, especially in the 202 and 811 housing programs for seniors and persons with disabilities, particularly in light of our recent hearing that demonstrated tremendous needs for such housing. I have similar concerns about proposed cuts in the Public Housing Capital Fund, Native American Housing Block Grants, and the HOME funds, each of which help preserve or create affordable housing in our communities.

Obviously, there is an awful lot to talk about with all of these initiatives, but again, we are, I think, truly fortunate to have you in the job that you are in. I know Jack Reed is probably going to want to talk about the flood issues, but we weren't hit as hard in Connecticut, although parts of my State were, and I will leave that to him. But there were some hard-hit communities in our States in the Northeast—Massachusetts and Rhode Island particularly—and we want to raise some issues with you there, as well. But nonetheless, you should know we have had some cooperation from your office on looking at our issues in these States and it will be important to us, as well.

With that, Senator Shelby.

STATEMENT OF SENATOR RICHARD C. SHELBY

Senator SHELBY. Thank you, Mr. Chairman. Good morning, Mr. Secretary.

Secretary DONOVAN. Good morning.

Senator SHELBY. While our hearing today is intended to cover the HUD budget for the next fiscal year, I would like to begin by highlighting the fact that the budget does not—does not, Mr. Secretary, as you know—address the future of the GSEs, Fannie Mae and Freddie Mac. For over a year and a half now, the Federal Government has been running Fannie Mae and Freddie Mac in conservatorship. Together, they represent combined books of business of nearly $5.5 trillion and own mortgage investments of nearly $1.5 trillion. The taxpayer exposure to these entities is massive, as you well know.

While these entities were at the center of the facility crisis, they were not included in the Administration's financial regulatory reform proposal presented to the Congress last fall. We were told then that we could expect it to be submitted with the President's budget around February of this year. I don't believe that happened.

Shortly after the budget submission arrived, Secretary Geithner indicated that there would not be any proposals coming prior to 2011. In fact, just yesterday, the Administration finally asked for public comment on the issue. And while this is a much needed step in this process, I believe it should have occurred at least a year ago. The GSE question, Mr. Secretary, as you well know, is simply too important to be treated as an afterthought.

Secretary Donovan, I also look forward to hearing your thoughts regarding the status of the FHA Fund and your legislative proposals to address its financial stability. The FHA capital ratio has fallen to a record low of 53 percent, barely covering a slip in the negative territory. You have taken steps to address this situation, and I appreciate that, and it is important for you to discuss, I think, how you arrived at those measures, and perhaps most importantly, for you to describe what dangers you see for the future of the fund if no action is taken.

I look forward to your testimony today.

Chairman DODD. Thank you very much, Senator.

Do any of my colleagues want to make any comments here at all? None at all?

Mr. Secretary, the floor is yours. We are anxious to hear your thoughts. You are our only witness today, but we would ask you not to go on too long. There is a lot of ground to cover. All your materials and things that will be important for the record will, of course, without objection be included in the record, as it will be for all of my colleagues, any thoughts, comments, materials, whatever.

Senator SHELBY. Mr. Chairman?

Chairman DODD. Certainly.

Senator SHELBY. I have got to go to an appropriations hearing to deal with the FBI in a few minutes and I wondered if I could ask that my questions of the Secretary be included in the record.

Chairman DODD. Absolutely.

Senator SHELBY. Thank you.

Chairman DODD. Absolutely.

Welcome.

STATEMENT OF SHAUN DONOVAN, SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Secretary DONOVAN. Thank you, Mr. Chairman, Ranking Member Shelby, Members of the Committee. Thank you for the opportunity to testify regarding the fiscal year 2011 budget for the Department of Housing and Urban Development, "Investing in People and Places."

I appear before you to discuss this budget and HUD's related legislative proposals in a far different environment from just 1 year ago. At that time, the economy was hemorrhaging over 700,000 jobs each month, housing prices were in freefall, and credit was frozen solid. Many respected economic observers warned that a second Great Depression was a real possibility. Meanwhile, communities across the country, from central cities to newly built suburbs to small town rural America, struggled to cope with neighborhoods devastated by foreclosures, even as soaring jobless rates and an eroding tax base crippled their ability to respond.

One year later, though, while there is still clearly a long way to go, the nation's housing market has made significant progress toward stability and there are growing reasons for optimism about the economy more broadly. Through coordinated efforts by Treasury, HUD, and the Federal Reserve, the Administration's goal has been to promote stability, both for the housing market and homeowners.

To meet these objectives, the Administration developed a comprehensive approach using State and local housing agency initiatives, tax credits for homebuyers, Neighborhood Stabilization and Community Development programs, mortgage modifications and refinancing, as well as support for FHA and the broader mortgage market.

Allow me to briefly explain what halting the slide in home prices and the Administration's measures to assist responsible homeowners have meant to America's families and communities.

Homeowner equity started to grow again in the second quarter of 2009 and to date has increased by over $1 trillion, or $13,000 on average for the nation's nearly 78 million homeowners, bolstering seniors' retirement savings, restoring an important source of college tuition support, and helping entrepreneurs start small businesses. And, of course, the economy created 162,000 jobs last month, the best jobs report in 3 years.

The Federal Housing Administration, or FHA, has been essential to the improved outlook, in the past year helping more than 800,000 homeowners refinance into stable, affordable fixed-rate mortgages, protecting an additional half-million families from foreclosure through its own foreclosure mitigation program, and guaranteeing approximately 30 percent of home purchase loan volume and fully half of all loans for first-time homebuyers.

Nonetheless, it must be acknowledged that with FHA's temporarily increased role in the housing market comes increased risk and responsibility. That is why FHA's fiscal year 2011 budget represents a careful, calibrated balancing of FHA's three responsibilities. First, providing responsible home ownership opportunities; second, supporting the housing market during difficult economic times; and third, ensuring the health of the MMI Fund.

FHA recently proposed a series of measures to mitigate risk and augment the MMI Fund's capital reserves: First, to increase the mortgage insurance premium and recalibrate the relationship between the up-front and annual premiums; second, to raise the combination of FICO scores and downpayments for new borrowers; third, to reduce seller concessions to industry norms; and fourth, to implement a series of significant measures aimed at increasing lender responsibility and enforcement. We look forward to working with this Committee on legislation in this area.

The changes to FHA programs proposed in the budget will lead to increased receipts. As you know, the Congressional Budget Office recently released its re-estimate of the President's 2011 budget, including their view of the impact of the foregoing steps. Although the CBO re-estimate included a more conservative assessment of how new loans made through FHA's MMI Fund would perform in coming years, both CBO and the Administration forecast that with our proposed FHA changes, such activity will result in net receipts to the government. This will help the fund get back on track to be capitalized with the statutorily mandated 2 percent of insurance in force.

With my remaining time, allow me to highlight some key legislative initiatives in the budget proposal. The first is HUD's multi-year effort called Transforming Rental Assistance, or TRA, and I want to thank you, Mr. Chairman, for your supportive comments about it in your opening statement. It does not take a housing expert to see that HUD's rental assistance programs desperately need simplification. HUD currently provides rental assistance to more than 4.6 million families through more than 13 different programs, each with its own rules administered by three different operating divisions.

In my career both in the public and private sectors, it was a constant struggle to integrate HUD's rental assistance streams and capital funding resources into the local, State, and private sector financing that was necessary to get the job done. The status quo for these programs is no longer an option. With a public housing program that has unmet capital needs upwards of $20 billion, now is the moment to permanently reverse the long-term decline in the nation's public housing portfolio and address the physical needs of an aging assisted stock.

This initiative is anchored by four guiding principles. First, that the complexity of HUD's programs is part of the problem and that we must streamline and simplify them so that they are governed by a single, integrated, coherent set of rules and regulations that better aligns with the requirements of other Federal, State, local, and private sector financing streams.

Second, that the key to meeting the long-term capital needs of HUD's public and assisted housing lies in shifting from the Federal capital and operating subsidy funding structure we have today to a Federal operating subsidy that leverages capital from private and other sources.

Third, that bringing market investment to all of our rental programs will also bring market discipline that drives fundamental reforms. Only when our programs are built, financed, and managed like other housing will we be able to attract the mix of incomes and uses and stakeholders that we need.

And fourth, we must combine the best features of our tenant-based and project-based programs to encourage resident choice and mobility. TRA reflects HUD's commitment to complementing tenant mobility with the benefits that a reliable, property-based, long-term rental assistance subsidy can have for neighborhood revitalization efforts and as a platform for delivering social services.

To be clear, this commitment to tenant mobility isn't about old ideological debates about place-based versus people-based strategies. To help vulnerable families living in neighborhoods of concentrated poverty and segregation, we need the best of both approaches, complementary rather than oppositional strategies that both empower families with a real choice to move to other neighborhoods of lower poverty and greater opportunity with the supports they need to succeed or to remain where they are and benefit from successful revitalization efforts.

Accordingly, in addition to this mobility element of TRA, the budget proposal includes significant place-based investments. First, we have transmitted to the Committee a legislative proposal for Choice Neighborhoods, an initiative that seeks to make the redevelopment of distressed public and assisted housing the anchor of broader community development efforts. Choice Neighborhoods builds and expands on the lessons of HOPE VI, not only that investment at scale can affect dramatic change at the community level, but also that for an investment to be game changing, it must take into account more than just distressed public housing and more than housing alone. Communities must be able to revitalize a problem project that is dragging down a neighborhood without regard to the arbitrary distinction of which HUD funding stream happens to fund it. Similarly, without provision of the supportive services that participating families need to improve their lives or ready access to the community assets that help build social and human capital, from parks to transit and others, comprehensive neighborhood revitalization initiatives are doomed.

Second, in attempting to carry out such comprehensive initiatives, communities have long been hampered by the lack of a place-based targeted tool for creating jobs, an economic development counterpart to HOPE VI, if you will. That is why our budget proposes $150 million for a catalytic investment fund designed to help distressed communities reorient their economies for the 21st century.

Third, HUD can't afford to make housing investments in isolation from community development investments, particularly when so many communities are ahead of us in terms of combining housing, economic development, and transportation. That is why it is so important that we launched our Sustainable Communities Initiative in 2010 to support these efforts. Chairman Dodd, I know how deeply you understand and are committed to encouraging integrated, environmentally sustainable, and socially and economically inclusive planning and investments in all of these areas. I look forward to working with you on your legislation relating to the Department's new Office of Sustainable Housing and Communities and a broad range of related issues.

With that, Mr. Chairman, let me cover one more issue and then finish my testimony. As you said at the beginning, we have had to make difficult choices in this budget, but I believe that we have targeted resources where the Department gets the biggest bang for the buck, and nowhere is this more clearly reflected than in the area of homelessness. I would like to thank Senator Reed and the leadership of this Committee for literally years of work to restructure and modernize these programs to reflect over two decades of research and on-the-ground experience.

As you know, these efforts came to fruition in May of last year with enactment of the Homeless Emergency Assistance and Rapid Transition to Housing, or HEARTH, Act. Fiscal year 2011 marks the first year of implementation of the HEART Act, and the Department's proposed funding level, an increase of nearly $200 million, will enable local homeless assistance planning and implementation collaboratives known as continuums of care to begin to do so by better addressing the unique dynamics of homelessness in rural communities and by implementing evidence-based practices, such as permanent supportive housing and homelessness prevention. We look forward to working with the Committee to facilitate smooth implementation of the HEARTH Act.

With that, let me conclude my testimony and I look forward to your questions.

Chairman DODD. Well, thank you very much, Mr. Secretary.

Let me express apologies for Senator Shelby. He has a hearing with the Director of the FBI in the Appropriations Committee at this hour, beginning in 2 minutes, and so he apologizes for not staying. He has a series of questions that he will submit for the record and I would ask for you to respond to them as soon as you have a chance to, as well. We thank you for that.

Chairman DODD. Let me just begin, if we can, and thank you for your testimony. There is a lot of ground to cover. But obviously, the issue of foreclosure prevention is still an issue. It was the subject of, I think, almost a—well, Jim Bunning and Jack Reed were having hearings on it before I became Chairman. In 2006, I think, Jim, was when you were talking about some of those issues. When I became Chairman in January of 2007, they were the first series of hearings we had, on the foreclosure issue, and regrettably, it is still with us.

I would like to commend the Administration. I know you are trying very hard on the expansion of the tools to address this crisis and I want to delve in a bit deeper, if you can, to these issues, if I may. The tail is still wagging the dog, it seems to us in many ways, and it seems that the holders of the second mortgages, who happen to be the services, as well, in many cases, are making the decisions regarding loan modifications. And we all knew about that. This wasn't a surprise. It was one of the real concerns we had in the various legislative proposals, how are we going to get over that hurdle of the second mortgage holders in order to protect their interest. They are hurting both, of course, we believe, the homeowners and the first lien holders by preventing more substantial forgiveness. I wonder what we might do about that. Have you given some thought to that, to get over that hurdle?

And second, the new FHA program you announced to help underwater borrowers has some real potential to help, but it carries with it real risk to the FHA fund. And again, this is subject matter others have raised here. I wonder if you might address how you protect the fund, which, as you know, is in somewhat precarious shape, to put it mildly. Both those questions.

Secretary DONOVAN. Sir, to begin with your question, the first piece around the issue of modifications and the second liens, the second liens are a critical issue. Our estimate is that about half of troubled borrowers have second liens, and for underwater borrowers, the deeper underwater they are, the more problem that the second liens are in terms of the extent of debt that is on those properties.

I do think that there are issues around how those second liens are being valued and held on the books of many of the banks, and that is an issue that I know both here and on the House side that there has been discussion of. Obviously, that is not something that is within HUD's power or even the Administration's power, given the independence of the regulatory bodies, to be able to change. However, I do think that is a piece of the issue.

We are attacking the problem, however, with a second lien program that went into effect a few weeks ago. All of the major banks have agreed to participate, which means that they are required when they evaluate—a first lien is evaluated for a modification, that the second lien must be modified, as well, if it meets the criteria of the program. And so I think that will be an important step in helping us. I think that, combined with a number of other steps that we have taken, is accelerating the pace of modifications.

There is no doubt the program was slower than we would have liked to get started. It took quite some time for the servicers to add staff and to tool up for the program. But as we announced yesterday, we did 60,000 permanent modifications over the last month and have over 100,000 that are completed and awaiting signature from the homeowners, which means that we have a total of over 330,000 permanent modifications that have been completed in terms of processing. So substantial progress that we have made.

And I would add that the pace—there is much confusion about this. The number is often quoted of millions and millions of homeowners at risk. Those are often delinquent homeowners. When we really look at the number of foreclosures that are happening, the number of permanent modifications we are doing a month now roughly equals the number of foreclosures. So we are getting to a significant scale in terms of the program.

And finally, I would just add, it was clear from the beginning of this program—the President said it himself when he announced it—we can't stop every foreclosure, nor should we. We have a significant number of foreclosures that are second homes, investor properties, that are vacant already, and so we will—and, frankly, some homeowners who simply cannot afford, even with reduced prices and modification, their homes. So we believe that we are getting to a scale that this program was targeted at. It is not a silver bullet, but that combined with the other efforts, we believe, can make a real difference.

Finally, just on the FHA fund, we did announce a targeted effort to expand our refinancing to make sure that underwater borrowers could get some assistance, given that is an increasing problem leading to foreclosures today. But I want to be very clear. This is 100 percent fully underwritten FHA loans. We will not be taking onto the FHA Fund any of the underwater amounts. We are requiring private write-downs of the debt in order to qualify. At least 10 percent of the debt must be written off. And FHA will only insure our traditional amount under the program.

And we have also worked with Treasury. They will be providing some support from TARP to ensure that a portion of the losses on those loans are covered, not by the FHA Fund but by TARP. So that will help to ensure that the progress we are making on the FHA Fund continues.

Chairman DODD. Well, I thank you for that response, and I want to commend you again for the efforts being made. It has been a long time coming. An awful lot of people suffer terribly because we did not have more aggressive action early on where this could have made a difference.

Let me just quickly, and then I will turn to my colleagues. I have a number of questions. But the Section 8 Voucher Reform Act, I know you are familiar with this. In the coming weeks, I am going to reintroduce that Section 8 program. In previous Congresses, when you were in a previous position, you actually appeared to testify about SEVRA as a witness at the table. Can you tell us how this legislation might work? And, again, just take a minute or two here to address the value of this particular program.

Secretary DONOVAN. SEVRA is absolutely critical, and I think really there are two things that I would highlight about it above the other elements of the bill. There are many things in there; I will not touch on all of them. But, first of all, one of the things that it does is to streamline and simplify the Section 8 voucher program, eliminating some of the complexity in income calculations, eliminating some of the unnecessary oversight that we have, for example, with senior properties or other properties that are in good condition, not requiring the same frequency of inspections and focusing our enforcement efforts more frequently on those properties that truly have physical issues, so a better targeting of our resources and a simplification that will allow the program to function more effectively and, frankly, allow more private owners to participate because it will remove barriers to participation.

The second thing I would highlight is that for too many years we have seen changing rules and requirements about the funding formula for Section 8, which has led to substantial gyrations in the program. Many families have either lost their vouchers or have been at risk of losing their vouchers because of that. And we need to get to a simple. stable, effective funding formula for the voucher program. SEVRA would accomplish that, and I think that is an absolutely critical thing going forward during a time of real fiscal constraints, as you know.

Chairman DODD. And last, I just want to—because I made such a point of your transforming the rental assistance program—and, again, I think I like this idea so much because it gets us away from this notion that we are going to—I think politically unrealistically that we are going to provide the kind of resources for maintenance in these areas. But the program is contingent upon a private sector interest in the program to generate the kind of investment necessary to preserve public housing. Give us some reason why we ought to have some confidence and faith in that, in this idea, because obviously that is the critical component, it seems to me.

Secretary DONOVAN. Well, I think it clearly is about attracting capital, and just to be clear, it is not just private capital. There are a whole range of other sources—low-income housing tax credits or others—which are, frankly, almost impossible to use today in concert with public housing. And so we want to open it up so that there is a broad range of sources that are available.

The second thing that I would say is that one of the real fundamental problems that we have had is that it is very, very difficult with public housing not just to integrate a mix of incomes, have working families, moderate-income families, even market rate units, that could be mixed with those units, which I think we have seen through HOPE VI and other efforts is enormously effective in creating more sustainable communities. But the other problem is if you want to locate a grocery store, if you want to locate a whole range of other uses within public housing, because it is financed, developed, managed, frankly, in a parallel universe from the rest of the way that all other real estate is created, managed, financed in this country, it is extremely difficult to create the kind of diverse viable neighborhoods out of public housing that I think we would all want.

And so really what we are talking about, I think, this has happened in every other kind of affordable housing, in tax credits and everything else, where you can integrate it effectively into a community. What we are talking about is bringing public housing and our other legacy programs into the 21st century, really, and getting them away from this parallel universe that they exist in today to create really viable neighborhoods in the long term.

Chairman DODD. Well, that is great. I am very impressed by it. Jim?

Senator BUNNING. Thank you, Mr. Chairman. Welcome, Secretary Donovan.

Secretary DONOVAN. It is good to be with you.

Senator BUNNING. Some disturbing news just was released at 8:30 this morning that new claims for unemployment went up 28,000 from last week to 478,000. I know that does not do anything but say that, oh, my God, maybe the holidays had something to do with it. But the trend has been the other way, going down. And I listened to Chairman Bernanke's assessment of the economy in the speech he made yesterday, and he was pretty optimistic, as optimistic as I have ever seen him, which is not very optimistic. He said some things, that we are in a sustained recovery, unemployment is going to lag, and all these good things that most of us that are sitting around this dais understand fairly well.

My question to you is: If we are going to do a financial reform bill and we have got these GSEs, especially these two giant GSEs that deal with most of the mortgages that we have in this country right now, Fannie and Freddie, I am troubled that the Administration has not put any plan or any complete plan to deal with them, but for now, in your humble opinion, do you have any idea how much it is going to cost the taxpayers in respect to Fannie and Freddie in whatever we do?

Secretary DONOVAN. What I would say——

Senator BUNNING. I know that is not in your bailiwick, but I am asking you as a person who deals with housing.

Secretary DONOVAN. Absolutely. Currently, under the agreements that were created when Fannie Mae and Freddie Mac were taken into conservatorship, as you know, before we came into office, about $125 billion has been advanced to the GSEs. So it is an enormous sum. And that is why reform of the GSEs is so critically important. And I want to be clear. I testified yesterday in front of the House. We discussed the four key principles and objectives for reform, nine different characteristics that we think the future housing finance system needs to have, and launched a public comment process, as we had mentioned earlier.

Senator BUNNING. Do you actually believe that we can reform Fannie and Freddie in their current form?

Secretary DONOVAN. I think it is pretty clear that the form of not just the GSEs but of the broader housing finance system must change. Let me just say one thing, though, and make a point.

One of our concerns, while reform is absolutely essential, is that the market is still quite fragile. In fact, in Bernanke's testimony, he said that housing was still one of the areas of concern.

Senator BUNNING. Yes, he did.

Secretary DONOVAN. And to be clear, all of those—the losses that I talked about of the GSEs are losses on loans that—the terrible loans that they should never have taken on, before they were taken into—loans that were made before they were taken into conservatorship. So every indication we have is that loans they are making today with improved underwriting standards are not going to result in losses to the taxpayer.

Senator BUNNING. I have a follow-up then on that because you mentioned FHA.

Secretary DONOVAN. So let me just—I think the key point is that if we do something that is too precipitous with the GSEs that causes at this point—because they are critical to our stability right now—that causes the market to take another downturn, we risk actually increasing the losses to the taxpayer. And that is why we believe while reform is absolutely essential and we are moving forward on that, we have to be careful and deliberative about how we achieve that reform and what the transition is because we do not want to increase losses to the taxpayer based on creating a double dip in the market given how fragile it——

Senator BUNNING. As long as there are GSEs, though, we have that risk. As long as there are government-sponsored enterprises, we are on the hook.

Secretary DONOVAN. I would also point out, though, that we believe strongly we want to get the private market to come back as quickly as possible. Many of the changes that we are making in FHA and otherwise are helping to do that. I would be happy to talk about some of the early signs of that. But until the private market fully comes back, eliminating the GSEs would mean a significant—today eliminating them——

Senator BUNNING. There has got to be a transition time.

Secretary DONOVAN. Right.

Senator BUNNING. We all know that. I mean, most of us do, anyway. Right now, FHA is the only source of low down payment mortgages. It is the only source. In effect, FHA has replaced at a smaller scale the subprime mortgage market for home purchases and refinances. Does it concern you that the only way to prop up the housing market is to put the taxpayer on the hook and allow the banks to keep writing mortgages without taking any risk?

Secretary DONOVAN. Senator, let me just disagree with you on a fundamental point that you made. FHA is not making subprime loans.

Senator BUNNING. I did not say they were. I said they are the only source right now——

Secretary DONOVAN. I would not describe any of the loans that we are making as subprime.

Senator BUNNING. Then there is not any.

Secretary DONOVAN. These are fully underwritten, 30-year fixed-rate loans, and to be clear—and I mentioned this in my testimony——

Senator BUNNING. At 100 percent of value?

Secretary DONOVAN. We do not make a single loan at 100 percent of value.

Senator BUNNING. I did not think so.

Secretary DONOVAN. And, in fact, we have——

Senator BUNNING. But Fannie did, Freddie did.

Secretary DONOVAN. And, unfortunately, FHA did through seller-funded down payment and other means, which have been stopped. In fact, we increased our down payment requirements recently, and I think it is critical to say that we are strengthening risk management, taking a number of steps, and all observers who have looked at this believe—our independent actuary, CBO, others—that we will actually return money to the taxpayer on loans that we are making today.

Senator BUNNING. You talked about—do you anticipate any loss out of the money you are going to get to use from TARP? Or is that going to be money that is going to return money to the taxpayer? Actually, it does not return money to the taxpayer because it is all borrowed. But the fact of the matter is, is there any return anticipating on the TARP money you were talking about a little before?

Secretary DONOVAN. What I can tell you is we do expect some losses on these loans, as you would with any kind of lending. We have established that funding as a backstop in case the losses are higher than we would have otherwise expected.

Senator BUNNING. The last question. Mr. Chairman, I know I went over.

Do you agree that low down payment and no down payment loans were a significant contributor to the housing bubble?

Secretary DONOVAN. I would agree, yes, they were a contributor.

Senator BUNNING. Well, if that is the case, then we have got to make sure that we do not do it over again.

Secretary DONOVAN. I agree, and that is why we have strengthened our requirements and are continuing to do so.

Senator BUNNING. OK. Thank you.

Chairman DODD. Thank you very much, Senator.

Senator Tester, you are next.

Senator TESTER. Well, thank you, Mr. Chairman. Are you sure? I think Senator Reed came in ahead of me.

Chairman DODD. I am just following——

Senator TESTER. Yes, I know you are, but in a sense of fairness—and, Senator Reed, we live on the same floor, and I do not want him working me over.

[Laughter.]

Chairman DODD. You are going to do so well here in the years ahead. Jack, go ahead.

Senator REED. I can just visualize me punching Jon in the knee.

[Laughter.]

Senator REED. Thank you very much, Senator Tester.

Chairman DODD. Although a guy who is airborne, I would be careful on the punches in the knees, though.

Senator REED. Thank you, Mr. Secretary, not only for your testimony but for your leadership. I also want to thank you and your staff for the assistance around the flood that Senator Dodd mentioned. Nancy Smith Greer, who is the HUD representative, has done a remarkable job.

Secretary DONOVAN. She is terrific.

Senator REED. She has been on the ground. I am trying to keep up with her as she runs around to different communities to see what can be done, and we really appreciate the effort. I also want to thank you for the assistance you have given to us in the new hardest hit fund going to Rhode Island for foreclosure. We have 12.7 percent unemployment, and as I said in a previous meeting, we have houses that are under water that are under water now, and we appreciate what you are doing to help us very much.

In this discussion of the foreclosure issue—and we had a very good discussion the other day with Secretary Geithner—I think we came down to saying that if we define the problem simply as foreclosure, there are certain steps we can take, but they will not totally resolve the issues that are affecting communities across the country. Another way, and I think maybe a more appropriate way, to look at this is not so much just foreclosure, but it is housing stabilization or neighborhood stabilization.

Secretary DONOVAN. Absolutely.

Senator REED. And to that effect, we appreciate what you are doing in terms of your efforts, but I think we have to do more in terms of neighborhood funding. We have several programs, one of which Senator Dodd and I—the Neighborhood Stabilization Program, *et cetera*. But just the point I want to make because it captures, I think, our discussion, which is when it came to the crisis of the lending institutions, we did not take an approach and define a problem, well, it is bad, it is just bad loans, because we would have stopped with the TARP programs. We took the approach that unless we stabilize the entire system, put a floor in, and then begin to see them sort of work out their problems, we were going to collapse.

I think in terms of the housing problem, we have taken a more narrow focus. It is foreclosure and we are doing our best. But, in fact, this is part of the problem, because if we do not get stabilization and appreciation—we are starting to see that in the housing markets—my constituents, regardless of flood waters, are not going to think we are stabilized and we are making progress and the economy is co ming back.

So in that regard, one, I thank you for the efforts you have made to date. And I want your comments on the neighborhood stabilization fund. Do we need more resources? Do we need to even think beyond that fund to go in and—and we talked about, you know, purchasing houses that are about to foreclose, wiping out the owner, particularly the absentee owner, using community organizations to do that, then selling those homes or renting them in a way in which the owner can support the mortgage. Do we need to do that? I think we do, but let me ask you.

Secretary DONOVAN. You raise a very important question, and part of this goes back to the FHA, the GSEs that we have talked about, keeping interest rates low, a broader range of efforts. I will also add counseling as an important piece of an overall solution, but absolutely this issue, you know, of foreclosure—in other words, foreclosure does not just affect the family that loses their home. It affects all of their neighbors.

Senator REED. Right.

Secretary DONOVAN. And their values drop as well. It affects renters. It affects a whole range of people. So neighborhood stabilization is critical. The $2 billion that you put in the Recovery Act was incredibly important in helping to really target some of the places that are hardest hit, but as you well know, we had over $15 billion of applications for just $2 billion. It is a real indication of the scale of the need.

And so I would absolutely say that there is a need for further efforts on that front. We are looking actively at that and would love to discuss with you more specific ideas that we have around that going forward.

Senator REED. I think in some respects—and these are not completely identical, but, you know, we faced judgments in 2008 whether we were going to take an incremental approach or we were going to go more than we thought was necessary, with the idea we could always pull back. I think in housing we have taken, frankly, not just your—in fact, from the beginning, in 2008, 2007, an incremental step, Hope for Homeowners, hope for this, hope for that, and we never decided to use what, you know, we might refer to as the shock and awe, like let us go in there and really stabilize these neighborhoods, not just urban but also rural areas. And I think we have to begin to think about that.

The resource issue is absolutely critical. The only obvious place you would begin to think about would be recycling TARP funds. That has some challenges. But I think we have to think about that. But thank you again.

I want to also thank you for including within the budget the funding for the National Housing Trust Fund. I have worked very closely with Senator Dodd and Senator Shelby to get that enacted. I think it is a very good program, and we would ask you to keep fighting the good fight in the appropriations process, and the President, to make sure we get the funding.

There is one other point I want to commend you about, and that is that HUD has imposed a 90-day moratorium on foreclosures in Rhode Island because of the flood. Also, we understand that GMAC and Wells Fargo have done the same thing. But I would urge other financial institutions to do the same thing, to give us a chance, give people a chance to get back on their feet.

Finally, I will give you an opportunity to talk about, as you have, these issues related to just the difficulty of getting banks and services to follow through at these foreclosure mitigation initiatives. Are we making progress on that front? Is there something that we have to do either with carrots or sticks—and maybe we have reached the point of sticks because there are some carrots out there—to get everyone focused on the criticality of this? Because if they are not doing this, then we are at the point where this incrementalism will not work.

Secretary DONOVAN. Certainly, as I mentioned earlier, I do think some of the accounting and valuation issues remain significant, and that is—I do not know whether you would call it a carrot or a stick, but it certainly could be either. It is certainly an issue that is worth discussion again, not in our sort of portfolio at HUD or even within the Administration, but an important one.

I do think we are making progress. The numbers indicate that we are making progress, the acceleration of permanent modifications that I talked about earlier. Part of this, frankly, was just adding literally thousands and thousands of staff and servicers. But we still are not satisfied at the pace we are today. And so what we have done on that front as sticks is to implement very specific timelines: here is how long you have before you can get back to a homeowner with a clear answer.

And I think another important change that we made recently is anyone who signed a contract—and that represents 90 percent of the loans being serviced today—you cannot initiate a foreclosure until you have evaluated someone for a modification, because we heard too many stories of people falling through the cracks and they were, you know, in process in a modification, and a foreclosure went ahead while they were on the verge of getting a modification. That cannot happen anymore, so we have just within the last few weeks made clear and required all the servicers to do that modification before they—or evaluate someone before they move forward with a foreclosure.

Senator REED. Just finally, all of my colleagues get the same complaints that I do, which is, you know, people want to do it, they call, and they say, well, call us next week, and next week it is another person on the phone, or they are all set to go, oh, I am sorry, we must have lost your paperwork, you have to apply again. The volume of these complaints suggests it is not something being made up, that quality control, you know, by supervisors of the people needs to be improved. I think there is a lot of checking the boxes going on: Yes, we made contact, yes, we made the NPV evaluation, yes, yes. But actually sort of getting it done is lagging, and that is going to require vigorous oversight by these institutions. And, again, if there is something we can do to encourage that, please let us know.

Secretary DONOVAN. We have begun audits of the servicers to make sure that we are getting better quality control along with the standards that we have imposed.

Senator REED. Thank you.

Thank you, Mr. Chairman.

Chairman DODD. Thank you very much.

Senator Tester.

Senator TESTER. Thank you, Mr. Chairman, and I want to thank Secretary Donovan for being here today.

Secretary DONOVAN. Good to see you.

Senator TESTER. I appreciate you and I very much appreciate the work that you have done. I appreciate you coming to Montana—a lot of appreciation here. I appreciate you coming to Montana last year and your openness to speak to everybody that you visited with in the time that you had there.

One of the areas that you went to is Northern Cheyenne and Indian country. You saw firsthand the challenges there as far as housing, and I want to talk about the Indian housing block grant program for a bit.

The Administration—and, quite honestly, I appreciate the Administration looking for any areas in which they can save money and reduce costs. One of the areas they did that was in the Indian housing block grant. It was reduced by $122 million. It is at a level—a 15-year low. Nineteen-ninety-six was the last time it was that low.

Can you talk to me about why that was done and how you see Indian housing moving forward from your agency's perspective into the future?

Secretary DONOVAN. Absolutely. As I said earlier, we did have some very difficult choices to make in this budget. The approach that we took broadly was as a first priority to protect all existing units and families, and so whether it was existing Section 8 vouchers, project-based Section 8, all of those, even which had increasing costs, to make sure those were protected before funding capital or other grants that go generally to create new units or renovate units. So that was a general decision that we made, which led to cuts not just in the block grant but also a number of other capital programs as well. Again, very difficult choices that we made.

Specifically on the Indian housing block grant, one of the things I was proudest of in the Recovery Act is that we were able to get, working with you, half a billion targeted to Native American, Native Alaskan, Native Hawaiian housing, and at this point that funding, you know, relative to the scale of the gap that you talked about, has allowed tribes around the country to invest at a scale that they had not been able to before.

At this point that funding is about 28 percent spent, and it is available for spending for about another 18 months, through September of 2011. So our sense, while it was not the choice I would have wanted, is that there are resources available, and I want to be very clear on that. One of the reasons I say it is some of the tribes have been concerned that this indicates a longer-term potential for a reduction in level. That was not our expectation. This was not an indication from our point of view that this needed less money. In fact, the Recovery Act investment indicated the opposite.

Senator TESTER. OK. From an accountability standpoint, not only the Recovery Act dollars but as these budget dollars go out, is your agency able to do accurate oversight to make sure this money is hitting the ground and being spent in the way it needs to be spent?

Secretary DONOVAN. I get—it would probably be good bedtime reading for all of you. I get a regular report from my recovery team. I sit down with them on a monthly basis. I go through every single program, where it is, the progress we have made, weekly updates on spending, and I am happy to say that we were able to obligate, to sign contracts on specific projects with 98 percent of our funding by a year after the signing of the bill. Just a few weeks ago, we met our first significant deadline for commitment of funds to specific units and buildings for the public housing capital fund; 99.9 percent of that money met that deadline, and so we are tracking it very, very closely.

Senator TESTER. So you are tracking it beyond just the expenditure to actually the product hitting the ground and being built.

Secretary DONOVAN. Absolutely.

Senator TESTER. OK. Good. I want to talk about vouchers for just a second, and I want to approach it, as I do just about everything that I do in the U.S. Senate, from a rural perspective. In a lot of the areas—well, let me ask you this: Is moving to the vouchers going to save money or is it more for integrating communities?

Secretary DONOVAN. Let me just be very clear. We are not—there are tenant-based vouchers and there are also project-based contracts. We are not proposing to move all of this housing to vouchers. What we are proposing to do is move it to project-based contracts that would allow it to raise other funds. So it is not going to be a shift toward a voucher, and I say this because I know in rural areas from my own work, from discussing this with you, that vouchers can be more difficult to use in rural areas.

So if there is a specific building with a contract in that community, we would continue that contract, but in a way that would allow that building to raise other funds and perhaps integrate other kinds of units with it going forward.

Senator TESTER. OK, good. So in Montana, we have got a 2-year backlog on vouchers. How is this program going to impact that 2-year backlog? Positively? Negatively? And ultimately how is it going to impact the housing for those folks that are in that situation?

Secretary DONOVAN. In total, this would in the short run keep the same number of units available in Montana. My hope would be in the long run that it would actually preserve more units and keep more units available. So we are working on some specific issues on prioritization of vouchers for families that want to move and how we do that so that we are fair in terms of those who are on the waiting list. But, fundamentally, the most important thing is are there more vouchers, and I want to be clear. We have proposed in the budget the highest level of funding for vouchers in the history of the program that would include most likely, our sense is, about 30,000 new vouchers nationally that we would be able to fund. So this does help significantly with the waiting list, the budget more broadly, in Montana.

Senator TESTER. OK, good. And in places where there are not the rental units available, which happens in many, many areas, and in a rural State like Montana, it will not have impact on the existing public housing that is there.

Secretary DONOVAN. That is right. It will have a positive impact, I think, in terms of that, but it will not convert that to vouchers.

Senator TESTER. OK. All right. The last thing is that you continue to have a standing invitation in August. I have a seat available for you to my left in the combine if you want to come out.

[Laughter.]

Secretary DONOVAN. Thank you. I appreciate it, Senator.

Senator TESTER. Thank you, Mr. Chairman.

Chairman DODD. Thank you.

Senator Bayh.

Senator BAYH. I think Senator Menendez was here before me.

Chairman DODD. Oh, were you here before? I apologize.

Senator MENENDEZ. Thank you.

Chairman DODD. I am sorry. I didn't recognize when you came in. I screwed up twice now this morning on that.

Senator BAYH. He was either here before me or my staff threw me under the bus.

[Laughter.]

Chairman DODD. No——

Senator BAYH. And no one would ever do that.

Chairman DODD. No, no. I am not going there.

[Laughter.]

Senator MENENDEZ. I was here before, but I am getting so thin, the Chairman missed me.

[Laughter.]

Senator MENENDEZ. Mr. Secretary, thank you for coming today and for your service.

I want to talk about housing for persons with disabilities. The Chairman and myself, we had a hearing here about this issue. One of his colleagues from Connecticut came and talked about it, a pretty dramatic need. And your budget allocates just $90 million to housing for persons with disability. That is a decrease of 70 percent from the 2010 appropriations, which were $300 million.

So it just seems to me that the cut strikes me as very bad, particularly for the most vulnerable people in our society who already should be at the top of the list in terms of who should have access to housing. They already face enormous challenges. We have 1.3 million low-income disabled households that have to spend more than half of their limited income on rent, and so the cut is, at the end of the day—I don't quite understand how you justify it.

Now, I know you will probably tell me that the programs weren't working. The problem is that a cut isn't a reform. It is a cut. If you reform the program and you use the money under a new reformed program, that is different. But a cut is a cut and I don't know how that necessarily moves to reform.

Secretary DONOVAN. So thank you for the question. This was one of the, probably the most difficult choice that we made in the budget, and ultimately, as I said earlier, we decided to focus resources on existing units and there were cuts on capital in many different areas. We made a commitment to renew every one of the existing

811 units that are there, the disabled units. But there is no doubt that this will have a negative impact.

Two things I would say about it. First of all, if you look broadly at the budget and affordable housing, the vast majority of housing for people with disabilities is not produced by this program. The tax credit produces more than ten times the number of units for people with disabilities. The number of vouchers, public housing units that serve people with disabilities vastly outweigh the number of units that are produced by 811—not to say that those units aren't important, but I want to be clear that we will still produce and provide a substantial amount of housing for people with disabilities.

The second thing I would say is that given the difficulties with the program, the period of time and the complexity of producing those units today, we have gotten to the point—and I have this experience directly myself prior to coming to HUD of trying to produce these units—the complexity of them, the low level of funding per unit in the program requires raising all kinds of other capital, tax credits, a range of other things, and yet the rules are still set up as if the program was a 100 percent funding program.

We felt that given all of those difficulties and complexities, as hard a choice as it was, that not continuing to fund the units under the way the program currently operates was the decision that we would go forward with in the budget. I recognize that that is hard, but I do want to make clear that we are committed to funding the program when we can get reforms that actually will make it as effective as possible.

Senator MENENDEZ. Well, we have a difference of opinion in terms of reform and then having the resources. Once you cut the resources, reform doesn't really ultimately solve the problem because then you don't have the resources to implement that reform. And even leaving $90 million in the Section is—at the end of the day, I don't know what the purpose is if you don't believe the program is worthy of spending any money based upon the way it operates.

I heard what you had to say as it relates to other programs that we have ultimately provided housing for people with disabilities; but clearly, this one, which was focused on the question of providing housing for people with disabilities, is a driver. The other ones produce some housing for people with disabilities, but are not dedicated to that, right?

Secretary DONOVAN. In fact, much of the housing, whether it is tax credits or others, there are lots and lots of projects that are dedicated to people with disabilities, as well. So those aren't just mixed projects that happen to go to people with disabilities. There are many, many units that are targeted——

Senator MENENDEZ. Can you provide to me and the Committee, under all of your other existing projects, what it is that gets produced for people with disabilities against what it is that you have overall produced for different forms of housing——

Secretary DONOVAN. Yes.

Senator MENENDEZ.——so that we can make a determination. You know, Senator Johanns and I, working with the Chairman, have developed legislation to reform 811 and to leverage other affordable housing resources, streamline the application process, accelerate development, build additional units with the same appropriation. Have you looked at that? Is that something that——

Secretary DONOVAN. We have and we think that legislation, as well as companion legislation in the House, is a good start toward that. We have had some discussions with the Committee as well as on the House side about suggested changes that we would have and we hope that we could get that legislation passed as quickly as possible.

Senator MENENDEZ. With reference to housing for the elderly, you also have a large cut, a decrease of 67 percent. There are now an estimated ten seniors for every Section 202 unit that becomes available. What is the story there?

Secretary DONOVAN. The 202 program and the 811 program operate very similarly and have the same fundamental issues. And so, again, we looked at, broadly, the number of units that are produced, how quickly and effectively additional capital for 202 or 811 would produce units relative to the other programs, and decided—again, in a year of very difficult choices—that it made sense to try to make the program work more effectively before investing further capital in those——

Senator MENENDEZ. I am just trying to understand how 60, 70 percent cuts mean more housing for people who are disabled and elderly. I just don't get it. It doesn't add up for me as simple math, but then again, that wasn't my strongest forte.

Secretary DONOVAN. As you just suggested, let us get you the numbers of what, whether it is increased funding in vouchers, in these range of other—the new tax credits that will be funded, how all of those produce units.

Let me be clear. I am not arguing that this is a good thing for seniors or people with disabilities. These were difficult choices. Had we not had the budget pressure that we had, I would have made different choices. But this was a prioritization that we needed to do given the broader fiscal circumstances, and we felt given the way that the program is currently operated in this kind of budget pressure—and I want to be very clear again that this does not mean long-term we are not committed to 202 or the 811 program that can produce units in an effective manner.

Senator MENENDEZ. Let me ask you finally, if I may, Mr. Chairman——

Chairman DODD. OK.

Senator MENENDEZ. I heard you respond to the foreclosure modification issues. I look at the numbers, 168,000 homeowners who have received final 5-year loan modifications under the Administration's plan. It is a tiny fraction of 6 million people who are more than 60 days late on their loans. You know, we have gone through various iterations. What makes us believe that—what have we learned to try to do this better and provide a greater solution at the end of the day, understanding not everybody is going to be able to be saved? I fully understand that. But 168,000 out of 6 million? I don't know that that is success.

Secretary DONOVAN. So before you arrived, we talked about some of these numbers more specifically. We did release new numbers yesterday, an increase of over 60,000 permanent modifications last month. So the pace of permanent modifications has accelerated. An additional more than 100,000 that have been completed and are only awaiting signature from the homeowner. So in total there you have got over 330,000, and so we are making substantial progress.

But just to be clear, and this often, I think, the numbers in terms of delinquent loans compared to modifications, the vast majority of those loans that are delinquent will not end up going to foreclosure. Right now, the pace of our permanent modifications is almost equal to the number of actual foreclosures that are happening each month.

So I do believe we are having an impact on the problem at a significant scale. Did it take us too long to get there? Yes. Are there further changes that we continue to make and to push? Yes. Has the problem changed and we need new tools? That is why we announced some changes a few weeks ago.

But this is an enormously difficult problem. Many of these homeowners, had we acted earlier, I think, and begun to get these systems in place years ago, we would have been able to reach more of them earlier. But we still will not, even with our programs, not be able to reach everyone. There are some folks who simply cannot afford the homes they are in even with lower prices and a modification. And we have many of these homes are investor owners or second homes or others, and we would be happy to share the details. A large fraction of those are not eligible for the program for reasons that we decided.

So in total, our estimate is that of the roughly 5.4 million people that we would expect over the 3 years to be at real risk of foreclosure, not the 6 million today, but over time, we are—our program is targeted to reach about 2 million of those that are eligible, that are owner occupants, that have modestly priced homes, that aren't the other ones that would be excluded. So we are reaching a very large fraction with the more than 1.1 million modifications we have done to date, trial modifications. We are reaching a very large portion of that overall——

Chairman DODD. Thank you, Mr. Secretary. Thank you.

I apologize to my colleagues. When we started the hearing, I had two colleagues here, so I was rather liberal in my time. The good news is, everyone is showing up, so I apologize to those. I didn't set a time on myself or anyone else, for that matter. So to Evan, to you, and to Jeff, who just arrived, and Bob coming in the door, I apologize to you in a sense in that I was guilty of it myself. And again, we have had great participation and good questions, so we will try and just be—we have got a couple more members to go.

Bob, you are up next.

Senator CORKER. I will be far more brief, and thank you, Mr. Chairman.

Chairman DODD. Again, I apologize.

Senator CORKER. Mr. Secretary, and by the way, I enjoyed hearing the long questions, so no offense taken there, I hope.

Mr. Secretary, I first of all want to thank you for doing what you do. I think you are one of those folks that we are lucky to have in Committee and I thank you for your service.

Secretary DONOVAN. Thank you, Senator.

Senator CORKER. I appreciate the way you have reached out to people on both sides of the aisle to try to build relationships and cause us to understand where you are going.

As it relates to the mortgage modification piece, to be candid, I have always thought it was kind of a Keystone Cop effort, that we would never catch up, and the only thing that really would make this all work out would be the economy coming back and employment coming back and, as you mentioned earlier, home values coming back. We probably wasted a lot of money and have certainly gone through a lot of effort, and I know some of it has borne fruit. Most of it has not. So I am certainly not going to weigh in on that. Hopefully, this effort will end soon and employment will be back and home values will be back up and people will have jobs, and that is the only real solution to the problem that we have.

So what I would like to move to is this. I am not going to talk about the budget. I thank you for coming in. You and I had a conversation several weeks ago, and this does tie into the foreclosure issue, regarding underwriting. I asked you some questions. What should we, what should all of us be looking at as it relates to underwriting for residential mortgages? I mean, at the end of the day, we have got a big bill, 1,336 pages, that I think a lot of smart people have put effort out to create. Hopefully, it is going to be changed to where we end up with a bipartisan bill. I think there is a desire by many for that to occur.

But the thing that we really don't address in that bill adequately yet, even though I think everybody is still noodling at it and trying to figure out the best way to do it, we don't address the core issue of the fact that there were a lot of loans written for people that should never have been written, that they never could have paid back, that the loan-to-value ratios were way out of whack from the very beginning, and if we don't get at that core issue in this legislation somehow, if we don't get at that, we really haven't accomplished much. I mean, we have had a lot of fancy discussions, but we aren't getting at the core issue.

I wonder if you could help. I asked you before. I know you have been very busy, but since I now have you as a public witness, help us understand—we talked some, and I know that Chairman Dodd is trying to get at it through risk retention. I think the way we are approaching it right now doesn't work. I think it shuts down the securitization markets, personally. That is not, I think, what our goal is. I think our goal is to make credit available. And I know we are in discussions maybe to try to resolve that, but what is the best way for us as policymakers to ensure that people are actually putting money down on their homes, that a loan-to-value ratio is not 100-to-100, OK, and yet at the same time, I came from a world civically where I wanted people to own homes. I think your efforts at HUD are valiant and I understand the mission.

How do we deal with that in the appropriate way without being overly prescriptive? I think it is an essential piece in this legislation that we have not yet debated. We keep talking about consumer. We keep talking about derivatives. We keep talking about resolutions. This is a pretty core issue that I don't think we have addressed. I think it is an issue that is pretty complex and I would love for you to tell us right now how to solve it.

Secretary DONOVAN. How long have you got? No. It is, as always, Senator, an incisive question about a key issue. All kidding aside, I don't think I can do justice to it just here. What I would suggest, and you and I talked recently about the risk retention issue, I have gone back with my colleagues at HUD and at Treasury and what we would like to do is come back and sit down with you perhaps in more detail about your question on that and talk through.

Because I do think while you raise, I think, an important point about capital requirements, what the impacts of that are going to be, having real skin in the game, whether it be some capital, whether it be ensuring that brokers or others making these loans have incentives that are aligned with the homeowner, *et cetera,* all of those, I think, are very important points.

I do think that there is—consumer protection is a piece of this, because at some level, having real requirements about—and limits about the types of products that can be available that are damaging, all of those are important, in addition to the issue about more specific underwriting.

What I would say is my concern about this in terms of setting sort of across-the-board standards is that when you start to dig into loan performance—this is true for FHA as for any other kind of loan—as you start to get beyond the sort of initial frame of just downpayment, just a FICO score or range of other criteria, the truth is that loans that can be risky for a risky borrower might not be risky for a different kind of borrower. So I think we have to have a fairly nuanced set of ways that it can be underwritten, and setting it too clearly or specifically in legislation in a way that wouldn't allow some flexibility, I think can be problematic.

I know that is a very general——

Senator CORKER. It is, and I know we are out of time and I certainly want to be courteous to our other members. Let me just say this. I don't know when you are coming to see me, but my understanding is Chairman Dodd is getting ready to introduce a bill on the floor. And coming to see me after that does no good.

If the Secretary of HUD cannot tell us—the Secretary of HUD, Housing and Urban Development, cannot tell us what he thinks is appropriate as it relates to underwriting, and what we are doing, let us face it, I mean, we are talking all around the issue, but what we are not talking about is skin in the game from homeowners. It is semi-important. We want to pass the buck. We want to get a piece of hide of Wall Street because that is a popular thing to say today and do. We want to get a piece of hide of this. We want to get a piece of it. But the one thing we are not talking about is how do we ensure that homeowners have some skin in the game. It is a pretty important concept.

I don't want to be overly strong with you, but if you are waiting to come see me in 3 weeks, that doesn't do any good. So I would hope that since this is a very central issue to the debate that we are having that we could see each other this week or early next week, because we have got to develop legislative language.

Chairman Dodd may not agree and Members of the Committee may not agree, but I think for a smart guy like you who is in charge of housing—you know, you are the Housing Czar, as they say—for a smart guy like you to tell us what you think ought to happen there is pretty important. And I have tremendous respect for you, but I hope we don't filibuster beyond this and miss an opportunity to deal with this core issue which is very important as it relates to financial regulation.

So I thank you very, very much for your service. Please come see me.

Secretary DONOVAN. I will, and let me just emphasize, I think you are absolutely right, and perhaps I wasn't as clear as I should be. We have changed the standards at FHA. We do have clear standards——

Senator CORKER. That is what——

Secretary DONOVAN.——downpayment and a range of other things. My only concern is that doing it in this forum in a quick answer, it is going to be hard to get to the—do justice to the question.

Senator CORKER. We met three or 4 weeks ago, and again, I know you are busy, but let us talk in the next few days.

Secretary DONOVAN. Yes.

Senator CORKER. Thank you.

Chairman DODD. Thank you, Secretary.

Let me just editorially say on this, we do actually address the issue, now not to the satisfaction of my friend from Tennessee, but by requiring skin in the game early on, they then have a vested interest in seeing underwriting standards. I think you did address the question, and that is there is some danger in applying rigid standards, underwriting standards, in a piece of legislation such as we are contemplating here considering the variations that exist.

Now, clearly, with CRA, FHA, again, you are dealing with certain constituencies. Underwriting standards are critical and they have proven to be so. But I want to be careful about having sort of a one-size-fits-all approach to that as we look forward. We have got to be careful about that. But I think you do need to have risk, skin in the game, what we didn't have. Of course, brokers and lending institutions were securitizing and moving on, being paid, had nothing left in the game and cared little or nothing about underwriting standards because they were being compensated very quickly and therefore had no interest in insisting that that borrower meet certain standards. If they had skin in the game, I think you are going to find a heightened degree of interest in what that borrower is going to be capable of paying. So we addressed the issue to some degree.

Anyway, Senator Bayh?

Senator BAYH. Thank you, Mr. Chairman.

Mr. Secretary, let me echo what my colleague from Tennessee said with regard to my gratitude for your service to the public. I think you know I hold you in high regard and you are one of the exemplary people who have devoted your life to helping others. With that by way of background, I hope you will take everything I am about to say in context.

As you know, there is an issue with regard to the city of Gary, Indiana, that I am not terribly happy about. And as I have told you more than a year ago, I was assured by a high-ranking official in the White House that there would be funds for the Neighborhood Stabilization Program through the stimulus bill to help tear down blighted areas in Gary. It is terrible. These are people without means. The city is struggling. I mean, these aren't rich people. They are not contributors. They are folks who need a helping hand to make a go of it.

As I think you know, there were no funds, zero, for the city of Gary in the second wave of the Neighborhood Stabilization Program that came out of the stimulus, isn't that correct?

Secretary DONOVAN. That is correct.

Senator BAYH. They got zero. Why was that?

Secretary DONOVAN. We ran a competition for that $2 million—$2 billion. We had $15 billion worth of applications——

Senator BAYH. Why weren't they——

Secretary DONOVAN.——and their application fell short.

Senator BAYH. Why weren't they deserving? This is your opportunity to tell the people of Gary why they weren't good enough.

Secretary DONOVAN. We evaluated the application and felt that, frankly, they did not have the capacity necessary to be able to—for us to be assured that they could quickly and effectively bring those houses down and accomplish the other things in their application.

Senator BAYH. What do you mean by capacity?

Secretary DONOVAN. The strength in the government agencies or partners working with them that would be able to quickly and effectively bring down those homes. And that is why, as you know, we have worked with them. We have reallocated $2 million out of existing funding that they had to begin demolishing homes with partners that we felt had capacity. Homes have, in fact, begun to come down in Gary as a result of your efforts and your focus on this——

Senator BAYH. How many?

Secretary DONOVAN. At this point, I don't have the precise numbers in front of me. My guess would be it would be in the range of a dozen, but the funding that we have provided——

Senator BAYH. There are thousands of blighted homes in Gary.

Secretary DONOVAN. The funding that we have been able to reprogram would be able to get to the scale of hundreds of homes.

Senator BAYH. Two-million dollars?

Secretary DONOVAN. That is right.

Senator BAYH. So by lack of capacity—we may as well use plain English—you don't think the city is competent to administer those funds effectively. Is that your opinion?

Secretary DONOVAN. What I said was, in a very difficult competition, $15 billion of applications, we thought that others had higher capacity to be able to implement the program.

Senator BAYH. Twenty-eight other States received funding and the District of Columbia. Three-hundred-and-sixty-five million dollars went to national not-for-profit organizations. Why were the national organizations given priority over the 20-some States that received zero?

Secretary DONOVAN. We had a number of States that got direct funding. We chose the applications that we thought were strongest based on the criteria of the competition.

Senator BAYH. So there were that many other places in the country that are more hard-pressed and more deserving than Gary, including these not-for-profit organizations were more deserving of these funds than Gary, Indiana?

Secretary DONOVAN. Again, I agree with you that the need is substantial in Gary. That is why we have worked hard to try to reprogram funds. We talked earlier about the need for more Neighborhood Stabilization funding that would allow cities like Gary and others to be able to move forward with these types of activities. But again, in a very competitive situation, we did not think that their application was as strong as the other ones that were funded.

Senator BAYH. Well, I am not accustomed to being promised things by high-ranking officials that then are not fulfilled and won't allow that situation to happen again. I don't lay this at your doorstep. I am not referring to you. As a matter of fact, I think you have been put in a somewhat difficult situation by all of this. But $2 million isn't going to be enough to solve the problem in Gary, Indiana. It is just not. And they feel like they have been let down by this Administration and I feel like they have been let down by this Administration. Again, not you. But something has to be done about this.

I guess I will just put it this way. I am contacted all the time by people from the Administration, including in this instance I am referring to, to ask for my help on things. Some of these decisions are tough calls. There are factors on either side. I am just not going to take those phone calls anymore. I am going to have them call the Department until there is some momentum here for the city of Gary, Indiana.

Again, I know your heart is in the right place. This is not you, OK. I want to make that absolutely clear. I think you are doing an exemplary job. But these are thousands of hard-pressed people who really aren't getting the helping hand they deserve, and I can't go home and explain to them how there were 28 other States that were more deserving, national not-for-profit organizations that were more deserving, when you walk down the streets of Gary, Indiana and see the blight that exists there. Two million dollars isn't going to get the job done. They have a right to feel like they have been hung out to dry. And I think by the word "capacity," we talked about providing them some funds so they could build capacity.

Secretary DONOVAN. And we have done that.

Senator BAYH. Well, if they are now capable, are we going to get more than the $2 million?

Secretary DONOVAN. I would be happy to talk with you about other ways that we could increase the help that they would get for demolishing properties.

Senator BAYH. OK. Well, I will just take—the Chairman has left, but I am just not accustomed—and it is not you, but I am not accustomed to being lied to. It is not going to happen again. So when I get these calls, I am going to redirect them to the Department. These people deserve the kind of help that I was led to believe they were going to get. It is not your fault. I think you are a devoted public servant and an exemplary public servant and the country is fortunate to have you. But there is a disconnect here and we just need to address it.

I think we have got a meeting coming up a week from tomorrow. At least, I am told that is on my schedule. I hope after my questioning we will still have a meeting and maybe we can identify some ways we could make progress. But I just needed to get on the record how strongly I feel about this, and you can understand that I feel pretty let down. We need to find a way, even if we have to—let us help the people. Let us figure out a way to do it, even if we have got to think creatively about how to get that done in ways that you have confidence in, the Department has confidence in. As I have said repeatedly, all I care about is that the blight comes down and the people get helped. How we do that, I could care less.

So hopefully we can get a little more momentum going here, and again, I think you have been put in a bad spot, but it is something we have got to address. So I appreciate your tolerance here today. I will look forward to seeing you next week.

Secretary DONOVAN. OK.

Senator TESTER. [Presiding.] Senator Merkley.

Senator MERKLEY. Thank you very much, Mr. Chair.

First, I would like to echo the concerns that Senator Menendez put forward. There are so many groups across the country that have been working on projects in the pipeline on both senior housing and housing for the disabled and the compete cutoff of funding for new construction projects leaves a tremendous number of projects hanging. It is just something for us to wrestle with, because it would be a shame to waste pre-development efforts in our nation in that fashion.

But I want to turn—because most of the other questions I had about the budget have been asked, so I want to turn back to the foreclosure issue, which I know that I raise quite often because it remains a concern. And I appreciate all the efforts that you have been making to improve the HAMP program, but there is an inherent challenge in HAMP and that is that it requires negotiations between first and second lien holders, between services who don't own the mortgages, between trusts that own the mortgages but don't really have people administering them because it is a corporate entity, if you will, to hold the mortgages, and then, of course, the bond holders who have claims against the cash-flow of those pools of mortgages. It is complex and it is messy.

Yesterday, a real estate attorney told me he spent 6 months calling every day on behalf of his sister to try to work out one modification, and he said, how do people without either the time and ability to make those phone calls every day, without the expertise I have as a real estate attorney, how does anyone ever get through this?

I know that you see this from the numbers that are completed, and it looks like it is improving, but please listen to the comments that come from every single one of us and our constituents that it is so difficult. So many people give up after their files are lost, time and time again, and that hasn't been resolved. So many give up after transfer to yet a new person who knows nothing about the issue and doesn't have that single point of contact. And there is only so much one can do within that complex legal structure to make it work better.

So I have been urging, and I know others have been urging, for the Department to look at other approaches, other ways of getting to address the foreclosure problem. You have seen the maps with some inner cities covered with red dots of foreclosures in process, where entire communities are being blighted by this. And for each one of those dots, it is a family that probably won't recover financially until their kids are up and out of school, and that maybe their kids don't go to college or don't have certain opportunities as they grow up, a family that if they have one other disaster befall them may be just a stroke away from homelessness. It is a tremendous problem.

There are ideas that have been put forward. One of the ideas that I have put forward has been to give families the ability to buy back their home at foreclosure auction where there is a market price set, with a lot of details, and your team has looked at those details. I want to keep pressing that conversation because I keep hearing, it makes sense, but we are working on HAMP modifications, or so forth. This would be based on the ability for a family to pay, taking into context the fact that anyone who has gone through foreclosure isn't going to have standard FICO scores that one would look for, but we can address that through FHA. And isn't it better for a family to be able to stay in their house and re-own it on a standard 30-year amortizing mortgage. Their house would no longer be underwater. There are issues that have been raised about adverse consequences and motivations, but those are solved by using the HAMP program as a filter. There are things that we can do in that regard.

Also, there is more we can do in regard to having facilitated short sales, and this is the type of structure where you say to a bank, look, you will get—there will be a third-party appraiser to establish the market value of this house. You will get 95 percent of the value of that third-party appraisal. They take a loss in the short term, but probably less than they have already marked that mortgage down on their books, so their capital standing actually improves, and the whole risk that goes with losing 50 percent of the value through a future foreclosure is lost. These type of sales could be greatly facilitated by the weighing in of the Administration. It can be changed when there is a second.

I know the Administration has come forward with a new plan that involves within HAMP negotiating between the first and the second holders, but that sort of negotiation is inherently complex and messy in a system just not set up—again, who really owns that second mortgage? Who are the bond holders on the pool of second mortgages? And you have got the first mortgage. You have got the complexity of both put together. How many deals are really going to get worked out in that context?

So my plea is that much more creative, energetic, robust thinking go into trying to address this foreclosure issue. It will haunt our families and it will haunt our communities and there really are other ways that could be pursued if the Administration takes a robust attitude toward this.

Secretary DONOVAN. I think there are lots of pieces to what you have described and I would hope that we could continue the conversation more, but let me just try to focus on it. I think you are absolutely right that the complexity of the existing structures is a big part of the problem, the conflicts between the first and the second, *et cetera*.

The issue is—for the case that you described, it is far more beneficial to that family to be able to keep them in the home to begin with than to have them go through the foreclosure, and I think given the current ability we have to bring down their payment, reduce principal now with our increased emphasis, the likelihood that a family does not qualify for a modification but could successfully afford—leave aside get financing, but afford that home at the end of the process when a net present value test has already been done that would allow them to be eligible for a modification, I think my sense is that that group is likely to be relatively small.

And so I think the question is, how many people would we be able to help with an approach like that? How many would we be able to reach, because I——

Senator MERKLEY. Keep in mind, the net present value test is a test for a bank to decide if it is in their best interest, not if it is in the family's best interest.

Secretary DONOVAN. But it does look at the value of the home, and so that is the key variable. So if the ability to pay is higher than the value of the home sold on the market, and they don't qualify under that test, it is extremely unlikely that they would be able to pay for the value of the home at the back end of the process.

Remember, the costs of foreclosure are already sunk costs at that point. In other words, the bank would have spent the money to go through the foreclosure and then would be expecting to get the full market value of the property, and that is the value that we use in the net present value test, as well as including a discount for some of the foreclosure costs. We should discuss this——

Senator MERKLEY. Let me give you a real example, the types of examples that we hear.

Secretary DONOVAN. Yes.

Senator MERKLEY. You have somebody with an exploding interest rate. It has gone from 5 percent to 9.5 percent. Maybe the home is now worth $200,000. They have a mortgage for $250,000. There is a huge difference in the monthly payments between $300,000 at 9.5 percent and $250,000 at 5.5 percent—an enormous difference. And then turn around and the house is auctioned off and an investor buys it at a fraction of the price and the family goes, boy, if we could only have bought that house. But it at least gives you an additional tool in the toolbox.

I mean, how many of those families, how many of those red dots that are in foreclosure right now, when those houses are sold to investors are going to say, you know what? If we had been offered a 5.5 percent loan at that rate, we would have been able to buy that house. That is every one of those families who you would be helping.

But it is this resistance to considering other tools, just the resistance I am hearing from you right here, right now, that could help families, the type of family stories we are seeing that I am trying to ask you and the Administration to say, well, you know what? That is an additional approach that could be helpful. Let us pursue it. Let us take it and see what we could do with it, because we had enormously generous, creative thinking about how to save large financial institutions. We need equally aggressive approaches to addressing the success of our families.

Secretary DONOVAN. Senator, I don't want to give you the impression that I am dismissing it, by any means. I am trying to understand how likely it would be that a family would be able to purchase a home having not been able to successfully make a modification work, particularly when we are able to bring down the interest rate substantially. I understand the 9 percent point. We would be able to bring it much lower.

But again, let me follow up with you. There is, I hope you would agree, been a real attempt as you have seen over the last few weeks and months to continue focusing on this, to introduce new tools like the refinance option that we introduced, the Neighborhood Stabilization option, other things that we have been doing, more counseling funding, a broad range of things.

I understand it is frustrating and that we certainly have not been able to make the progress that you would like or that we would like in terms of the pace that we have been able to implement these. But I do want to make sure I understand the reasons behind why you think this could be successful——

Senator MERKLEY. Absolutely——

Secretary DONOVAN.——so that we can arrive at a decision about it and a program that would be effective.

Senator MERKLEY. We have talked to your team members, laid out a lot of details, a fairly comprehensive type of approach, and we keep hearing, makes sense. I need for the Secretary of Housing to say, I am going to get engaged on other strategies to assist families in foreclosure.

The modifications of HAMP are appreciated, but the HAMP process is inherently complex and messy. It only works for a family if it is the best option for a bank—not if it is the best option for the family, but if it is the best option for the bank. We need to look at this through the lens and success of our families. That is my emphasis. Thank you.

Secretary DONOVAN. Thanks.

Senator TESTER. Thank you, Senator Merkley.

I want to thank you for being here today, Secretary Donovan. Thank you for your leadership in the Department.

This meeting is adjourned.

Secretary DONOVAN. Thank you, Senator.

[Whereupon, at 11:20 a.m., the hearing was adjourned.]

[Prepared statements, responses to written questions, and additional material supplied for the record follow:]

PREPARED STATEMENT OF SHAUN DONOVAN

SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

APRIL 15, 2010

Mr. Chairman, Ranking Member Shelby, and Members of the Committee, thank you for the opportunity to testify today regarding the fiscal year 2011 Budget for the Department of Housing and Urban Development, "Investing in People and Places."

A Changing Environment

I appear before you to discuss this Budget and HUD's related legislative proposals in a far different environment from that faced by the Nation and the Department just 1 year ago. At that time, the economy was hemorrhaging over 700,000 jobs each month, housing prices were in free fall, residential investment had dropped over forty percent in just eighteen months, and credit was frozen nearly solid. Many respected economic observers warned that a second Great Depression was a real possibility, sparked of course by a crisis in the housing market. Meanwhile, communities across the country-from central cities to newly built suburbs to small town rural America-struggled to cope with neighborhoods devastated by foreclosure, even as their soaring jobless rates and eroding tax base crippled their ability to respond.

One year later, though there is clearly a long way to go, it is clear that the nation's housing market has made significant progress toward stability, and there are growing reasons for optimism about the economy more broadly.

Through coordinated efforts by Treasury, HUD, and the Federal Reserve, the Administration's goal has been to promote stability for both the housing market and homeowners. To meet these objectives, the Administration has developed a comprehensive approach using state and local housing agency initiatives, tax credits for homebuyers, neighborhood stabilization and community development programs, mortgage modifications and refinancing, and support for Fannie Mae and Freddie Mac. The Administration's efforts for homeowners have focused on giving responsible households an opportunity to remain in their homes when possible while they get back on their feet, or relocate to a more sustainable living situation.

This comprehensive, multi-faceted strategy has had a real impact on the market. As measured by the widely referenced FHFA index, home prices have been rising more or less steadily since last April. As recently as January of 2009 house prices had been projected to *decline* by as much as 5 percent in 2009 by leading major macroeconomic forecasters.

More importantly, allow me to briefly explain what halting the slide in home prices and the Administration's measures to assist responsible homeowners have meant to middle-class families.

First, money in families' pockets. Mortgage rates which have been near historic lows over the past 10 months have spurred a refinancing boom that has helped nearly 4 million borrowers save an average of $1,500 per year—pumping $7 billion annually into local economies and businesses, generating additional revenues for our nation's communities and benefiting our economy more broadly.

Second, security. As a result of stabilizing home prices and lower financing costs, home equity had increased by over $900 billion over the first three quarters of 2009—more than $13,000 on average for the nation's 78 million homeowners.

Third, increasing confidence about the future. Homeowner equity is key to consumer confidence and to bringing new borrowers back into the market. This dynamic has helped the economy to grow at the fastest rate in 6 years, and, in March, to create 162,000 jobs the largest job growth figures in 3 years.

The Federal Housing Administration (FHA) has been essential to this improved outlook—in the past 16 months helping more than 1.1 million homeowners refinance into stable, affordable fixed-rate mortgages, assisting more than half million families to avoid foreclosure, guaranteeing approximately 30 percent of home purchase loan volume, and approximately one-third of all loans for first-time homebuyers. In addition, last month, the Administration announced important changes to both FHA and HAMP aimed at increasing the focus of our foreclosure mitigation efforts on homeowners who are under water and those who are facing challenges meeting their mortgage payments because of unemployment.

Of course, just as this crisis has touched different communities in different ways, so, too, have they rebounded at different paces. As a result, some regions continue to face difficulty, even as others are moving toward recovery. That is one reason why the President recently announced $2.1 billion in funding to help families in 10 states that have suffered an average home price drop of over 20 percent from the peak—including an innovation fund that will expand the capacity of housing finance and similar agencies in the areas hardest-hit in the wake of the housing crisis.

These announcements continue the Administration's response to assist homeowners and stabilize neighborhoods, including through the nearly $2 billion that HUD has obligated under the Neighborhood Stabilization Program to address the problem of blighted neighborhoods, targeting hard-hit communities across the country and including major awards in Ohio, Illinois, New Jersey, Pennsylvania and other areas that have been deeply affected by the current housing problems. The Administration continues to explore and refine ways to assist homeowners and stabilize neighborhoods struggling with foreclosures.

HUD has also played a key role in implementing the American Recovery and Reinvestment Act (ARRA), which, according to the nonpartisan Congressional Budget Office is already responsible for putting as many as 2.4 million Americans back to work and has put the Nation on track toward a full economic recovery. And, I am appreciative of the support for our efforts in this area that Congress and the Members of this Committee have shown.

HUD has now obligated 98 percent of the $13.6 billion in ARRA funds stewarded by the Department—and disbursed $3.7 billion. I would note that a portion of HUD's ARRA funding is fully paid out, or expended, only when construction or other work is complete—just as when individual homeowners complete payment after they have work done on their homes. Therefore, some of HUD's obligated, but not yet expended, funds are already generating jobs in the hard hit sectors of housing renovation and construction for the purposes of modernizing and "greening" public and assisted housing, reviving stalled low-income housing tax credit projects, and stabilizing neighborhoods devastated by foreclosures. Additional HUD-administered ARRA funds are providing temporary assistance to families experiencing or at risk of homelessness in these difficult economic times.

While the economy has a long way to go to reach full recovery, and the promising indicators emerging steadily are not being experienced by all regions or communities equally, it is clear that we have pulled back from the economic abyss above which the Nation stood a year ago.

Roadmap to Transformation

HUD's fiscal year 2010 Budget, then, reflected a singular economic moment. During the last Administration, the Department's annual budget submissions chronically underfunded core programs, and many observers came to regard the agency as slow moving, bureaucratic, and unresponsive to the needs of its partners and customers. HUD's fiscal year 2010 budget request, $43.72 billion (net of receipts generated by FHA and the Government National Mortgage Association, or "Ginnie Mae") was a 7 percent increase over the fiscal year 2009 enacted level of $40.72 billion and sent the clear message that HUD's programs merited funding at levels sufficient to address the housing and community development needs of the economic crisis. It also reflected this Administration's belief that HUD could transform itself into the more nimble, results-driven organization required by its increased importance.

In response to HUD's fiscal year 2010 budget proposal, Roadmap to Transformation, Congress—with important support from this Committee—provided a vote of confidence for which I want to express my deepest appreciation. The fiscal year 2010 appropriations legislation provided HUD programs $43.58 billion (net of receipts), funding needed to stabilize the Department's programs across-the-board. Critically, the Budget also targeted $258.8 million to the Department's proposed Transformation Initiative, the cornerstone of the agency's efforts to change the way HUD does business. For the first time, HUD has the flexibility to make strategic, cross-cutting investments in research and evaluation, major demonstration programs, technical assistance and capacity building, and next generation technology investments to bring the agency fully into the 21st century.

Investing In People and Places

As a result of all this work—by Congress, HUD and across the Administration—we no longer confront an economy or a Department in extreme crisis. Still, much work remains, in much changed fiscal circumstances. Now that the economic crisis has begun to recede, President Obama has committed to reducing the Federal deficit, including a 3-year freeze on domestic discretionary spending. HUD's fiscal year 2011 budget reflects that fiscal discipline. Net of $6.9 billion in projected FHA and Ginnie Mae receipts credited to HUD's appropriations accounts, this Budget proposes overall funding of $41.6 billion, 5 percent below fiscal year 2010. Not including FHA and Ginnie Mae receipts, the budget proposal is $1.6 billion above the 2010 funding levels. These figures meant that we had difficult choices to make—and we chose to prioritize core rental and community development programs, fully funding

Section 8 tenant-based and project-based rental assistance, the public housing Operating Fund, and CDBG.

At the same time, the Budget cuts funding for a number of programs, including the public housing capital fund, HOME Investment Partnerships, Native American Housing Block Grants (NAHBG), the 202 Supportive Housing Program for the Elderly, and the Section 811 Supportive Housing Program for Persons with Disabilities. In some instances, these are programs that received substantial ARRA funding (*e.g.,* public housing capital and NAHBG), reducing the need for funds in fiscal year 2011. In the case of reductions to new capital grants—in public housing, Section 202, and 811—the Department is recognizing that HUD's partners must increasingly access other private and public sources of capital as HUD and the Federal Government are facing severe resource constraints. During this fiscal year, we will take administrative steps and work with this Committee on legislative reforms needed to modernize the 202 and 811 programs. Simultaneously, the Department has made the difficult decision to target HUD's housing investments to their most crucial and catalytic uses, primarily rental and operating assistance that best enable those partners to leverage additional resources.

As such, we believe this is a bold budget, with carefully targeted investments that will enable HUD programs to: house over 2.4 million families in public and assisted housing (over 58 percent elderly or disabled); provide tenant based vouchers to more than 2.1 million households (over 47 percent elderly or disabled), an increase of more than 100,000 over 2009; more than double the annual rate at which HUD assistance creates new permanent supportive housing for the homeless; and create and retain over 112,000 jobs through HUD's housing and economic development investments in communities across the country. In total, by the end of fiscal year 2011, HUD expects its rental assistance programs to reach nearly 5.5 million households, over 200,000 more than at the end of fiscal year 2009.

And in terms of reform, this Budget proposes fundamental change beyond the Department's fiscal year 2010 proposal. A year ago, urgent circumstances called for HUD's programs to be taken largely "as is" in order to pump desperately needed assistance into the economy in time to make a critical difference. With the infusion of ARRA and fiscal year 2010 funding having stabilized HUD's programs, the time has come to begin transforming them—to make HUD's housing and community development programs, and the administrative infrastructure that oversees them, more streamlined, efficient, and accountable.

This Budget is a major step in that direction. Specifically, it seeks to achieve five overarching goals, drawn from an extensive strategic planning process that engaged over 1,500 internal and external stakeholders in defining the Department's transformation priorities and strategies.

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

With housing still representing the largest asset for most American households, it is essential that home prices continue to stabilize in order to restore the confidence of American consumers. Americans held roughly $6.2 trillion in home equity in the third quarter of 2009, up from its lowest point of $5.3 trillion in the first quarter of 2009. The central role of housing in the U.S. economy demands that Federal agencies involved in housing policymaking rethink and restructure programs and policies to support housing as a stable component of the economy, and not as a vehicle for over-exuberant and risky investing.

With that in mind, the fiscal year 2011 Budget represents a careful, calibrated balancing of FHA's three key responsibilities: providing homeownership opportunities to responsible borrowers, supporting the housing market during difficult economic times and ensuring the health of the Mutual Mortgage Insurance (MMI) fund.

FHA provides mortgage insurance to help lenders reduce their exposure to risk of default. This assistance allows lenders to make capital available to many borrowers who would otherwise have no access to the safe, affordable financing needed to purchase a home. As access to private capital has contracted in these difficult economic times, borrowers and lenders have flocked to FHA and the ready access it provides to the secondary market through securitization by Ginnie Mae.FHA insures approximately thirty percent of all home purchase loans today and nearly half of those for first-time homebuyers. The increased presence of FHA—and other institutions like Fannie Mae and Freddie Mac—in the housing market, has helped support liquidity in the purchase market, helping us ride through these difficult times until private capital returns to its natural levels.

Not only is FHA ensuring the availability of financing for responsible first time home purchasers, it is also helping elderly homeowners borrow money against the equity of their homes through the Home Equity Conversion Mortgage (HECM). This program has grown steadily in recent years, to a volume of $30.2 billion in fiscal year 2009.

FHA is also providing several outlets of relief for homeowners in distress. First, and perhaps most significantly, it is helping homeowners refinance from unsustainable mortgages into 30 year, fixed-rate FHA-insured loans at today's much lower rates. On March 26th, as part of the Administration's continued efforts to assist homeowners to avoid foreclosure, HUD announced adjustments to the FHA program that will allow lenders to provide additional refinancing options to those borrowers who owe more on their home than it is worth, in conjunction with a mandatory principal write down by their lender or mortgage investor. These adjustments will provide more opportunities for qualifying mortgage loans to be responsibly restructured and refinanced into FHA loans as long as the borrower is current on the mortgage and the lender reduces the amount owed on the original loan by at least 10 percent. We have also expanded the FHA loan modification program, known as FHA HAMP, to provide incentives for servicers to modify loans insured by the FHA. With the issuance of new rules on March 26 (Supplemental Directive 10–03), TARP-funded incentives will be available to borrowers and servicers whose loans are modified under the FHA–HAMP guidelines, corresponding to the pay-for-success HAMP incentive structure.

And finally, FHA is playing an important role in protecting homeowners and helping prospective homeowners make informed decisions. It is providing counseling to homeowners to help them avoid falling into unsustainable loans. And it is fighting mortgage fraud vigorously on all fronts, having suspended seven lenders, including Taylor, Bean and Whitaker, and withdrawn FHA-approval for over 300 others since last summer.

To support these important efforts, the Budget includes $88 million for the Housing Counseling Assistance program, which is the only dedicated source of Federal funding for the full spectrum of housing counseling services. With these funds we also plan to continue our work to expand the number of languages in which counseling is available. In addition, the budget continues FHA's Mortgage Fraud initiative ($20 million) launched in fiscal year 2010 as well as implementation of sweeping reforms to the Real Estate Settlement and Procedures Act (RESPA) beginning in January 2010 and the Secure and Fair Enforcement (SAFE) for Mortgage Licensing Act beginning in June 2010.

With this Budget, HUD is projecting that FHA will continue to play a prominent role in the mortgage market in fiscal year 2011. Accordingly, it requests a combined mortgage insurance commitment limitation of $420 billion in fiscal year 2011 for new FHA loan commitments for the Mutual Mortgage Insurance (MMI) and General and Special Risk Insurance (GI/SRI) funds. The proposed total includes $400 billion under the MMI Fund, which supports insurance of single family forward home mortgages and reverse mortgages under HECM; and $20 billion under the GI/SRI Fund, which supports multifamily rental and an assortment of special purpose insurance programs for hospitals, nursing homes, and Title I lending. The budget requests a direct loan limitation of $50 million for the MMI fund and $20 million for the GI/SRI fund to facilitate the sale of HUD-owned properties acquired through insurance claims to or for use by low- and moderate-income families.

With FHA's temporarily increased role, however, comes increased risk and responsibility. That is why FHA has rolled out a series of measures over the last year to strengthen its risk and operational management. It has hired its first chief risk officer in its 75-year history and created an entire risk management organization and reporting structure, tightened its credit standards significantly and, as I mentioned, expanded its capacity to rein in or shut down lenders who commit fraud or abuse.

On January 20th of this year, FHA Commissioner Stevens proposed taking the following steps to mitigate risk and augment the MMI Fund's capital reserves: increase the mortgage insurance premium (MIP); update the combination of FICO scores and down payments for new borrowers; reduce seller concessions to industry norms; and implement a series of significant measures aimed at increasing lender responsibility and enforcement. And to strengthen its operational capacity, FHA has begun implementing a plan to significantly upgrade its technology infrastructure and increase its personnel, to ensure that both are in keeping with the growth of its portfolio and the increase in responsibility.

These changes merit additional explanation, as they not only put FHA on firmer footing and increase reserves, but also generate additional revenues in fiscal year 2011 to contribute to deficit reduction. First, insurance revenues from single family loan guarantees will grow by increasing the upfront premium to 225 basis points across all FHA forward product types (purchase, conventional to FHA refinances, and FHA to FHA refinances). The upfront premium increase was implemented by mortgagee letter issued on January 21, 2010 and will apply to all applications received on or after April 5, 2010.

Second, FHA is also proposing a "two-step" FICO floor for FHA purchase borrowers, which would reduce both the claim rate on new insurance as well as the loss rate experienced on the claims incurred. Purchase borrowers with FICO scores of 580 and above would be required to make a minimum 3.5 percent down payment; and those with FICO scores between 500–579 would be required to make a minimum down payment of 10 percent. Applicants below 500 would be ineligible for insurance. These changes are being proposed after an exhaustive review of FHA's actual claim performance data, which demonstrates that loan performance is best predicted by a combination of credit score and downpayment—simply raising one element without recognizing the impact of the layering of risk factors is not sufficient. We are considering how these changes might be applied to refinancing borrowers as well. FHA is proposing to publish the two-step FICO proposal in the Federal Register in short order with implementation later in 2010. In combination, these reforms—which are already permitted under current law—can be expected to produce $4.2 billion in offsetting receipts in fiscal year 2011.

In addition, as noted in the proposed budget, while HUD is moving to increase the upfront premium to 225 basis points we are ultimately planning to reduce that premium to 100 basis points, offset by a proposed increase in the annual premium to 85 basis points for loans with loan-to-value ratios (LTV) up to and including 95 percent and to 90 basis points for LTVs above 95 percent. These changes to the annual premium will require legislative authority, and we are looking forward to working with this authorizing committee as part of that effort. This new premium structure more in line with GSE and private mortgage insurers' pricing, which facilitates the return of private capital to the mortgage market. Indeed, if these changes are adopted during the current fiscal year, the estimated value to the MMI fund would be $300 million in additional funds each month, providing better underwriting for FHA loans and helping to replenish capital reserves.

If implemented, in combination with the two-step FICO floor, this change in the premium structure is projected to result in the $5.8 billion in offsetting FHA receipts for fiscal year 2011 that is reflected in the Budget Appendix. In sum, FHA has taken the kinds of steps necessary to make sure that it will remain strong and healthy enough to continue to fulfill its mission of serving the underserved and playing a vital counter-cyclical role in the housing market.

Goal 2: Meet the Need for Quality Affordable Rental Homes

Several recent national indicators have pointed to increasing stress in the U.S. rental housing market. Vacancy rates are on the rise as a result of the dampened demand and additional supply repurposed from the ownership market. Spreads between asking rents and effective rents are widening. Asking rents are now $65 higher than effective rents (6.6 percent of the effective rent)—the largest gap over the past 4 years. While some new renters have been the beneficiaries of this softness, drawing concessions from distressed property owners, the budgets of many more low-income renters have been strained as household incomes fall, due to unemployment and lost hours worked.

Loss of income stemming from the recession is likely offsetting affordability gains from declining rents. Vacancies in the lower end of the market remain considerably lower than market levels overall, and the number of cost burdened low-income renters is on the rise. Based on estimates from the 2008 American Community Survey, 8.7 million renter households paid 50 percent or more of their income on housing, up from 8.3 million renter households in 2007. These figures do not include the over 664,000 people who experience homelessness on any given night.

As HUD Secretary, as well as the current Chair of the Interagency Council on Homelessness under President Obama, I am committed to making real progress in reducing these tragic figures. To do so requires substantial investment even in this difficult fiscal year. For this reason, the Budget provides $1 billion for capitalization of the National Housing Trust Fund, to increase development of housing affordable to the nation's lowest income families. I look forward to working with the Members of this Committee to secure the funds.

In addition, HUD's rental assistance and operating subsidy programs have never been more needed, nor has the imperative to operate them efficiently been clearer. This budget takes three critical steps to meet this challenge.

- ***Increases investment in core rental assistance and operating subsidy programs***

This Budget invests over $2.2 billion more than in fiscal year 2010 to meet the funding needs of the Tenant-based Rental Assistance (TBRA) pro-

gram, the Project-based Rental Assistance (PBRA) program, and the public housing Operating Fund.

Tenant-based Rental Assistance

The Section 8 TBRA or Housing Choice Voucher (HCV) program is a cost-effective means for delivering decent, safe, and sanitary housing to low-income families in the private market, providing assistance so that participants are able to find and lease privately owned housing. In fiscal year 2009, HUD assisted over 2 million families with this program; and, in fiscal year 2010, we plan to assist over 76,000 more families through new incremental vouchers.

This Budget continues HUD's bedrock commitment to its largest program. The calendar year request for 2011 is $19.6 billion, a $1.4 billion increase over the 2010 Consolidated Appropriations Act and an amount estimated to assist 2.2 million households. This represents an increase of 34,466 families from fiscal year 2010 projections and 112,304 more than at the end of fiscal year 2009.

Of the $19.6 billion request, $17.3 billion will cover the renewal of expiring annual contribution contracts (ACC) in calendar year 2011; with $1.8 billion for Administrative Fees; $125 million for Tenant Protection vouchers; $60 million to support Family Self-Sufficiency (FSS) activities; and up to $66 million for disaster vouchers for families affected by Hurricanes Ike and Gustav. In addition, this Budget requests $85 million for incremental vouchers to help homeless individuals, at-risk families with children, and families with special needs stabilize their housing situation and improve their health status, as well as $114 million for the shift of the renewal of mainstream vouchers from the Section 811 account to the TBRA account.

Through this Budget, the Department reaffirms its commitment to improving the Section 8 program by designing a comprehensive development strategy to improve HUD Information Technology systems to better manage and administer the Voucher program; implementing an improved Section 8 Management Assessment Program (SEMAP) that will ensure strengthened oversight, quality control, and performance metrics for the voucher program; continuing the study to develop a formula to allocate administrative fees based on the cost of an efficiently managed PHA operating the voucher program; developing a study to evaluate current Housing Quality Standards and improve the unit inspection process; and eliminating unnecessary caps on the number of families that each PHA may serve.

Project-based Rental Assistance (PBRA)

PBRA assists more than 1.3 million low- and very low-income households in obtaining decent, safe, and sanitary housing in private accommodations. This critical program serves families, elderly households, disabled households, and provides transitional housing for the homeless. Through PBRA funding, HUD renews contracts with owners of multifamily rental housing—contracts that make up the difference between what a household can afford and the approved rent for an adequate housing unit in a multifamily development.

HUD is requesting a total of $9.382 billion to meet PBRA program needs. This includes $8.982 billion to be available in fiscal year 2011 (in addition to the $394 million previously appropriated) and $400 million to be available in fiscal year 2012. For fiscal year 2011, HUD estimates a need of $8.954 billion of new Budget Authority for contract renewals and amendments. The need for Section 8 Amendment funds results from insufficient funds provided for long-term project-based contracts funded primarily in the 1970s and 1980s, when long-term contracts (up to 40 years) made estimating funding needs problematic, leading to frequent underfunding. The current practice of renewing expiring contracts for a 1-year term helps to ensure that the problem of inadequate funded contracts is not repeated. However, some older long-term contracts have not reached their termination dates and, therefore, have not yet not entered the 1-year renewal cycle and must be provided amendment funds for the projects to remain financially viable. The Department estimates that total Section 8 Amendment needs in 2011 will be $662 million. The Budget request continues the Department's commitment to provide full 1-year funding for contract renewals and amendments.

Public Housing Operating Fund

The public housing Operating Fund provides operating subsidy payments to over 3,100 public housing authorities (PHAs) which serve 1.2 million households in public housing. The fiscal year 2011 Budget requests $4.8 billion, which will fully fund the Operating Fund. Full funding is essential to the proper operation of public housing, provision of quality housing services to residents, and effective use of Capital Fund resources.

- ***Begins to streamline the Department's rental assistance programs***

It does not take a housing expert to see that HUD's rental assistance programs desperately need simplification. HUD currently provides deep rental assistance to more than 4.6 million households through thirteen different programs, each with its own rules, administered by three operating divisions with separate field staff. Too often over time, additional programs designed to meet the needs of vulnerable populations were added without enough thought to the disjointed system that would result. This unwieldy structure ill serves the Department, our government and private sector partners, and-most importantly the people who live in HUD-supported housing.

In my last job, as Commissioner of the New York City Department of Housing Preservation and Development, I personally experienced the challenges of working with HUD rental assistance to preserve and develop affordable housing at a large scale. While implementing the City's 165,000 unit New Housing Marketplace plan, it was a constant struggle to integrate HUD's rental assistance streams, and capital funding resources for that matter, into the local, state, and private sector housing financing that was absolutely necessary to leverage to get the job done.

But I was willing to deal with the transaction costs of engaging with HUD's less-than-ideally aligned subsidy programs for a simple reason: the engine that drives capital investment at the scale needed, in a mixed-finance environment, is typically a reliable, long-term, market-based, stream of Federal rental assistance. Historically, no other mechanism—and no other source of government funding—has ever proven as powerful at unlocking a broad range of public and private resources to meet the capital needs of affordable housing. While highly imperfect, HUD's rental assistance programs are irreplaceable.

This said, tolerating the inefficiencies of the status quo is no longer an option. The capital needs of our Nation's affordable, federally assisted housing stock are too substantial and too urgent. The Public Housing program in particular has long wrestled with an old physical stock and a backlog of unmet capital needs that may exceed $20 billion.[1] To be sure, nearly two decades of concentrated efforts to demolish and redevelop the most distressed public housing projects, through HOPE VI and other initiatives, has paid off. The stock is in better shape overall than it has been in some time,[2] and the $4 billion in ARRA funds targeted to public housing capital improvements are further stabilizing the portfolio. But this very progress has created a unique—but time limited—opportunity to permanently reverse the long-term decline in the Nation's public housing portfolio and address the physical needs of an aging assisted housing stock.

My many years of experience in dealing with affordable housing on a large scale-both in New York and overseeing HUD's multifamily assisted housing programs during the 1990s—have drilled home two key lessons. First, it is far more costly to build new units than to preserve existing affordable housing. And, second, an affordable housing project can limp along for some time with piecemeal, ad hoc strategies to address its accumulating capital backlog, but eventually the building will reach a "tipping point" where its deterioration becomes rapid, irreversible and expensive. This moment in time calls for a timely, crucial Federal investment to leverage other resources to the task of maintaining the number of safe, decent public and assisted housing units available to our nation's poor families-an objective that at some point, soon, will cost the taxpayer substantially more to achieve by other means.

Nor can we afford to sustain the disconnect between HUD's largest rental and operating assistance programs, given the disproportionate impact of the recession on the recipients of HUD assistance and the communities where much of HUD's public and assisted housing stock remains. More than ever, communities of concentrated poverty need their public and assisted housing stock—even the most distressed projects that are the targets of our proposed Choice Neighborhoods initiative—to serve as anchors of broader neighborhood revitalization efforts. Simultaneously, in this challenging economy, tenants of HUD-subsidized projects also need the option to pursue opportunities for their families in other neighborhoods and communities as and when they arise, without losing the subsidy that is so crucial to maintaining their housing stability. Today, we lack the seamless connection that should exist between HUD's largest project-based assistance programs—PBRA and public housing-and the Housing Choice Voucher program, which leaves tenants of PBRA and public housing with limited ability to move to greater opportunity.

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[1] HUD is currently conducting a definitive Capital Needs study of the public housing portfolio.

[2] *Preserving Safe, High Quality Public Housing Should Be a Priority of Federal Housing Policy,* Barbara Sard and Will Fischer, October 8, 2008 (noting that "ninety percent of developments meet or exceed housing quality standards, although most developments are more than 30 years old, and many will need rehabilitation.").

To address these issues and move HUD's rental housing programs into the housing market mainstream, HUD proposes to launch an ambitious, multi-year effort called the Transforming Rental Assistance (TRA) initiative.

This initiative is anchored by four guiding principles:

First, that the complexity of HUD's programs is part of the problem—and we must streamline and simplify our programs so that they are less costly to operate and easier to use at the local level. Ultimately, TRA is intended to move properties assisted under these various programs toward a more unified funding approach, governed by an integrated, coherent set of rules and regulations that better aligns with the requirements of other of Federal, state, local and private sector financing streams.

Second, that the key to meeting the long-term capital needs of HUD's public and assisted housing lies in shifting from the Federal capital and operating subsidy funding structure we have today—which exists in a parallel universe to the rest of the housing finance world—to a Federal operating subsidy that leverages capital from other sources.

Third, that bringing market investment to all of our rental programs will also bring market discipline that drives fundamental reforms. Only when our programs are truly open to private capital will we be able to attract the mix of incomes and uses and stakeholders necessary to create the sustainable, vibrant communities we need.

And fourth, that we must combine the best features of our tenant-based and project-based programs to encourage resident choice and mobility. TRA reflects HUD's commitment to complementing tenant mobility with the benefits that a reliable, property-based, long term rental assistance subsidy can have for neighborhood revitalization efforts and as a platform for delivering social services. And in a world where the old city/suburb stereotypes are breaking down, and our metropolitan areas are emerging as engines of innovation and economic growth, we have to ensure our rental assistance programs keep up.

Under the 2011 budget, the first phase of TRA will provide $350 million to preserve approximately 300,000 units of public and assisted housing, increase administrative efficiency at all levels of program operations, leverage private capital, and enhance housing choice for residents. With this request, we expect to leverage over $7.5 billion in other public and private sector capital investment. PHAs and private owners will be offered the option of converting to long-term, market-based, property-based rental assistance contracts that include a resident mobility feature, which we are working to define in close collaboration with current residents, property owners, local governments and a wide variety of other stakeholders.

Most of the fiscal year 2011 downpayment on TRA, up to $290 million, will be used to fill the gap between the funds otherwise available for the selected properties—in most cases the public housing Operating Fund subsidy—and the first-year cost of the new contracts. As noted above, a reliable funding stream will help place participating properties on a sustainable footing from both a physical and a financial standpoint, enabling owners to leverage private financing to address immediate and long-term capital needs, and freeing them from the need for annual capital subsidies.

Under this voluntary initiative, HUD will prioritize for conversion public housing and assisted multifamily properties owned by PHAs. Notably, in this regard, TRA delivers on the promise of over a decade's worth of movement in the field of public housing toward the private sector real-estate model known as "asset-management," by finally providing public housing authorities with the resources to successfully implement this model in the projects they will continue to own. Three types of privately owned HUD-assisted properties will also be eligible for conversion in this first phase: Section 8 Moderate Rehabilitation contracts administered by PHAs, and properties assisted under the Rent Supplement or Rental Assistance Programs. With this step, we can eliminate three smaller legacy programs that have become "orphans" as new housing programs have evolved. This consolidation will preserve these properties for residents, improve property management, and streamline HUD oversight to save the taxpayer money.

Much of the remaining funding, up to $50 million, will be used to promote mobility by targeting resources to encourage landlords in a broad range of communities to participate in the housing voucher program and to provide additional services to expand families' housing choices. A portion of these funds also may be used to offset the costs of combining HCV administrative functions in regions or areas where locally designed plans propose to increase efficiency and effectiveness as part of this conversion process.

By late April, the Administration plans to transmit to this Committee proposed legislation to authorize the TRA initiative and the long-term property-based rental assistance contracts and resident choice policies that are its cornerstone. Enactment of a number of the provisions in the Section 8 Voucher Reform Act is also an integral part of the Transforming Rental Assistance initiative. The Administration looks forward to working with Congress to finalize this vital legislation.

Without Congress' work on HOPE VI and the Quality Housing and Work Responsibility Act, this opportunity would never have arisen. This year, we can together begin to put both public and assisted housing on firm financial footing for decades to come, and start to meld HUD's disparate rental assistance and capital programs into a truly integrated Federal housing finance system. I hope that you will help HUD make this breakthrough by enacting these key pieces of legislation.

- ***Increases investment in proven and restructured HUD homeless assistance programs***

The budget also proposes to increase funding for HUD's highly effective Homeless Assistance Grants by nearly $200 million fiscal year 2010, to $2.055 billion in fiscal year 2011. I would like to thank Senator Reed and the leadership of this Committee for literally years of work to restructure and modernize these programs to reflect over two decades of research and on-the-ground experience combating homelessness. As you know, these efforts came to fruition in May of last year, with enactment of the Homeless Emergency Assistance and Rapid Transition to Housing, or "HEARTH" Act.

Fiscal year 2011 marks the first year of implementation of the HEARTH Act, and the Department's proposed funding level will enable local homeless assistance planning and implementation collaboratives—known as Continuums of Care—to do so by better addressing the unique dynamics of homelessness in rural communities, improving performance-management and outcome focus within local homeless assistance systems, and implementing evidence-based practices such as permanent supportive housing and homelessness prevention. The Department looks forward to working with you to making minor adjustments to HEARTH to facilitate this implementation process in light of some practical obstacles our Special Needs Assistance Programs and Services office is confronting.

With respect to homelessness prevention, I would call to the Committee's attention the recent publication of a significant study by HUD's Office of Policy Development and Research entitled "Costs Associated With First-Time Homelessness for Families and Individuals." This examination of the costs incurred within homeless and mainstream service delivery systems in six communities as diverse as upstate South Carolina to large cities like Houston and Washington, D.C. provides compelling support for continuing to apply the old adage "an ounce of prevention is worth a pound of cure" in the context of homelessness—which ARRA did by providing $1.5 billion in Homeless Prevention and Rapid Re-housing Program (HPRP) grants and the HEARTH Act continued through the permanent authorization of a similar prevention program.

We have long known that chronic homelessness generated such substantial costs within homeless and mainstream systems that evidence-based interventions to end chronic homelessness, such as permanent supportive housing, generate savings across systems nearly equal to their costs (efficiently capturing these savings across executive branch and legislative 'silos' at various levels of government is, of course, an ongoing challenge). This is why recent Federal efforts have focused on "moving the needle" on chronic homelessness, with the result that chronic homelessness dropped 30 percent in the 4 years from 2005 through 2008, certainly one of the greatest social welfare policy achievements of the past decade. It is now increasingly clear that even first time homelessness incurs substantial costs, and that the best way to avoid these costly interactions is to keep vulnerable households from becoming homeless in the first place.

In sum, the Department's fiscal year 2011 Homeless Assistance Grants funding request reflects the paradigm shift this Committee helped to produce within the nation's homeless system, through the HEARTH Act, and will allow the Administration to continue making progress in ending chronic homelessness and meet the growing need among homeless families during this economic downturn. Finally, as the current Chair of the Interagency Council on Homelessness, I look forward to submitting to Congress next month, and working with you to implement, the 5-year Federal strategy to address homeless mandated by the HEARTH Act.

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

A growing body of evidence points to the role housing plays as an essential platform for human and community development. Stable housing is the foundation upon which all else in a family's or individual's life is built—absent a safe, affordable place to live, it is next to impossible to achieve good health, positive educational outcomes, or reach one's full economic potential. Indeed, for many persons with disabilities living in poverty, lack of stable housing as discussed above, leads to costly cycling through crisis-driven systems like emergency rooms, psychiatric hospitals, detox centers, and even jails. By the same token, stable housing provides an ideal launching pad for the delivery of healthcare and other social services focused on improving life outcomes for individuals and families. As noted above, a substantial level of research has established, for example, that providing permanent supportive housing to chronically ill, chronically homeless individuals and families not only ends their homelessness, but also yields substantial cost savings in public health, criminal justice, and other systems-often nearly enough to fully offset the cost of providing the permanent housing and supportive services. More recently, scholars have focused on housing stability as an important ingredient for children's success in school—unsurprisingly, when children are not forced to move from place to place and school-to-school, they are more likely to succeed academically.

Capitalizing on these insights, HUD is launching efforts to connect housing to services that improve the quality of life for people and communities. The fiscal year 2011 budget proposes the following important initiatives:

- ***Connects formerly homeless tenants of HUD-housing to mainstream supportive services programs***

The Department requests $85 million for incremental voucher assistance for the new Housing and Services for Homeless Persons Demonstration to support groundbreaking collaborations with the Department of Health and Human Services (HHS) and the Department of Education. This demonstration is premised on the Administration's firm belief that targeted programs alone cannot end homelessness. Mainstream housing, health, and human service programs will have to be more fully engaged to prevent future homelessness and significantly reduce the number of families and individuals who are currently homeless. Two separate initiatives will be funded in an effort to demonstrate how mainstream programs can be aligned to significantly impact homelessness.

One initiative will focus on individuals with special needs who are homeless or at risk of homelessness. This initiative is designed to model ways that resources across HUD and HHS can be brought to bear to address the housing and service needs of this vulnerable population. Recently released data shows that over 42 percent of the homeless population living in shelters has a disabling condition. The demonstration would combine Housing Choice Vouchers with health, behavioral health and other support services to move and maintain up to 4,000 chronically homeless individuals with mental and substance use disorders into permanent supportive housing.

Vouchers will be targeted to single, childless adults who are homeless and who are already enrolled in Medicaid through coverage expansion under state Medicaid waivers or state only initiatives. In addition, HHS is seeking $16 million in its fiscal year 2011 budget request to provide wraparound funding through grants administered by the Substance Abuse and Mental Health Services Administration to promote housing stability and improvements in health outcomes for this population. HUD and HHS will jointly design the competitive process and conduct an evaluation to determine: (1) the cost savings in the healthcare and housing systems of the proposed approach, (2) the efficacy of replication, and (3) the appropriate cost-sharing among Federal agencies for underwriting services that increase housing stability and improve health and other outcomes.

Another initiative will establish a mechanism for HUD, HHS and Department of Education programs to be more fully engaged in stabilizing homeless families, ultimately resulting in reducing the costs associated with poor school performance and poverty. This initiative strategically targets these resources to: (1) identify families who are homeless or at risk of homelessness, (2) intervene with the appropriate array of housing assistance, income supports, and services to ensure that the family does not fall into the shelter system or onto the street (or if already homeless that the family is stably housed and does not return to homelessness), and (3) provide the tools necessary to assist the family to build on its resources to escape poverty and reach its highest possible level of economic security and self-sufficiency.

HUD will make available a minimum of 6,000 Housing Choice Vouchers on a competitive basis and jointly design the competitive process with HHS and the Department of Education. Winning proposals will have to show that the new vouchers are being targeted to communities with high concentrations of homeless families. With guidance from HHS, states will need to demonstrate how they will integrate HUD housing assistance with other supports—including TANF—these families will need to stabilize their housing situation, foster healthy child development, and prepare for, find, and retain employment. HHS will provide guidance to state TANF agencies and other relevant programs to explain this initiative and their role in both the application for the vouchers and the implementation of the program. DoE will assist with identifying at-risk families with children through their network of school-based homelessness liaisons, and providing basic academic and related supports for the children. Locally, applicants will need to show that they have designed a well-coordinated and collaborative program with the TANF agency, the local public schools, and other community partners (*e.g.,* Head Start, child welfare, substance abuse treatment, *etc.*).

Collectively, these initiatives represent an unprecedented, "silo-busting" alignment of Federal resources to address the needs of some of the country's most vulnerable individuals and families. At the same time, we believe they will save the taxpayer significantly in the long run. This innovative approach will also involve some collaboration across subcommittee jurisdictional lines, and we look forward to working with the members of this panel in determining how best to facilitate that joint action.

- ***Modernizes the 202 and 811 Supportive Housing Programs for the Elderly and Disabled***

As the Department begins the process of restructuring its rental assistance programs, it must also ensure that its programs providing capital grants and rental assistance that are sized to the actual costs to operate a project ('budget-based' or 'operating cost-based') are well designed for the world of housing finance in the 21st century. Beyond public and assisted housing—the focus of the TRA initiative—the most prominent examples of such funding streams are the Section 202 and 811 programs, which couple housing and services for the nation's poor elderly and disabled, respectively.

Although they have provided critical housing for thousands of residents, these programs are in need of modernization. Project sponsors no longer receive enough funding per grant for the 202 and 811 programs to be a "one-stop shop" to capitalize and sustain a project, yet they are subject to a level of bureaucratic oversight that suggests they are. This regulatory structure also makes it difficult for project sponsors to work with other financing streams, such as low income housing tax credits, even as the average grant size requires accessing other capital sources. As a result, project development is slowed and, coupled with outdated geographic allocation formulae, limited resources are spread too thin to reach scale at either the project or national programmatic levels. In 2009, the 202 program produced only 3,049 units with an average project size of 44 units and the 811 program produced only 661 units with an average project size of 10 units.

Approximately 10 times as many units are produced under the Low Income Housing Tax Credit program. And under the status quo, the total annual production of units will continue to decrease as the cost of supporting existing 811/202 properties consumes more and more of the overall funding allocation. This threatens to make the programs increasingly marginal for the nation's elderly and disabled.

Accordingly, HUD requests a suspension of funding for Section 202 and 811 Capital Advance Grants in fiscal year 2011 in order to redesign the programs to better target their resources to meet the current housing and supportive service needs of frail elderly and disabled very low-income households. The redesigned programs will maximize HUD's financial contribution through enhanced leveraging requirements and will also encourage or require partnerships with HHS and other services funding streams to create housing that, while not medically licensed, still effectively meets the needs of very low-income elderly and disabled populations unable to live fully independently. The program reforms for both 202 and 811 will include the following: 1) new requirements to establish demand to ensure meaningful impact of dollars awarded; 2) raised threshold for sponsor eligibility to ensure the award of funds only to organizations with unique competency to achieve the program goals; 3) streamlined processing to speed development timeframes; 4) broader benefits of program dollars achieved by facilitating supportive services provided by Medicaid/ Medicare Waiver programs such as the Program of All-inclusive Care for the Elderly (PACE) model services to 202 project residents, 5) encouraging better leveraging of other sources of funding, such as low income housing tax credits, and 6) integrating 811 programs within larger mixed-finance, mixed-use projects.

Goal 4: Build Inclusive and Sustainable Communities Free from Discrimination

The Department's approach to this objective is informed by the Obama Administration's landmark, Federal Government-wide review of "place-based" policies for the first time in over three decades.

Place is already at the center of every decision HUD makes. HUD's programs today reach nearly every neighborhood in America—58,000 out of the approximately 66,000 census tracts in the U.S. have one or more unit of HUD assisted housing. But we have taken this opportunity to renew our focus on place, with the result that the proposed fiscal year 2011 Budget allows HUD to better nurture sustainable, inclusive neighborhoods and communities across America's urban, suburban, and rural landscape.

One aspect of HUD's refined place-based approach involves making communities sustainable for the long-term. Sustainability includes improving building level energy efficiency, cutting carbon emissions through transit-oriented development, and taking advantage of other locational efficiencies. But sustainability also means creating "geographies of opportunity," places that effectively connect people to jobs, quality public schools, and other amenities. Today, too many HUD-assisted families are stuck in neighborhoods of concentrated poverty and segregation, where one's zip code predicts poor educational, employment, and even health outcomes. These neighborhoods are not sustainable in their present state.

This Budget lays the groundwork for advancing sustainable and inclusive growth patterns at the metropolitan level, communities of choice at the neighborhood scale, and energy efficiency at the building scale. Specifically, the fiscal year 2011 Budget calls for the following series of programs and funding levels.

- ***Supports and improves the Federal Government's premier community development program***

The economic downturn and foreclosure crisis have significantly depleted resources in state and local governments while increasing demand for services. Revenue declines often turn quickly into layoffs and cuts in services for the poor. Meanwhile, community development investments have a heightened role in economic redevelopment and stabilization for neighborhoods and regions across the country. During these difficult economic times, it is critical that the Administration support and enhance community development programs, and partner with grantees in developing strategies to increase economic vitality, build capacity, and build sustainable communities and neighborhoods of opportunity. Since 1974, the Community Development Block Grant (CDBG) program has provided formula grants to cities and states to catalyze economic opportunity and create suitable living environments through an extensive array of community development activities.

The fiscal year 2011 Budget proposes a total of $4.380 billion for the Community Development Fund, which includes:

- $3.99 billion for CDBG formula distribution, to meet the President's campaign promise to fully fund CDBG. Simultaneously, the Department proposes a number of improvements to the CDBG program, including revamping the consolidated plans developed by state and local governments, greater accountability, and better performance metrics.
- $150 million in funding for the second year of the Sustainable Communities Initiative. The initiative has four components in 2011, described below. HUD looks forward to working with the Committee and in particular the Chairman, who has played an important leadership role on this set of issues, to refine these proposals.
    1. Sustainable Communities Planning Grants administered by HUD in collaboration with the Department of Transportation (DOT) and the Environmental Protection Agency (EPA). These grants will catalyze the next generation of integrated metropolitan transportation, housing, land use and energy planning using the most sophisticated data, analytics and geographic information systems. Better coordination of transportation, infrastructure and housing investments will result in more sustainable development patterns, more affordable communities, reduced greenhouse gas emissions, and more transit-accessible housing choices for residents and firms.
    2. Sustainable Communities Challenge Grants to help localities implement Sustainable Communities Plans they will develop. These investments would provide a local complement to the regional planning initiative, enabling local and multi-jurisdictional partnerships to put in place the policies, codes, tools and critical capital investments to achieve sustainable development patterns.
    3. The creation and implementation of a capacity-building program and tools clearinghouse, complementing DOT and EPA activities, designed to sup-

port both Sustainable Communities grantees and other communities interested in becoming more sustainable.

4. A joint HUD–DOT–EPA research effort designed to advance transportation and housing linkages at every level our agencies work on.

- $150 million for the Catalytic Investment Competition Grants program to create jobs by providing economic development and gap financing to implement targeted economic investment for neighborhood and community revitalization. For too long, communities have lacked the kind of place-based, targeted, 'game-changing' Federal capital investment program in the community and economic development arena that HOPE VI has proven to be with respect to severely distressed public housing. The Catalytic Investment Competition would rectify that imbalance by providing 'gap financing' for innovative, high impact economic development projects at scale that create jobs. The program will create a competitive funding stream that is responsive to changes in market conditions, leverages other neighborhood revitalization resources (including formula CDBG funds), and ultimately increases the economic competitiveness of distressed communities and neighborhoods.

  Under this proposal, my office would be permitted to consider how much and to what extent projects complement and leverage other community development and revitalization activities such as the Choice Neighborhoods Initiative, Promise Neighborhoods, HOPE VI, Sustainable Communities, or other place-based investments in targeted neighborhoods to improve economic viability, extend neighborhood transformation efforts, and foster viable and sustainable communities. Applicants must develop a plan that includes measurable outcomes for job creation and economic activity, exhibit capacity to implement the plan, and demonstrate approval for the plan from the local jurisdiction. Applicants will be required to leverage other appropriate Federal resources, including but not limited to, Community Development Block Grant formula funding and Section 108 Loan Guarantees. This will support HUD's effort to partner with grantees to more effectively target community development investments toward neighborhoods with greatest need, disinvestment, or potential for growth.

- ***Enhances and broadens capacity building for our partners***

The fiscal 2011 Budget provides $60 million for a revamped Capacity Building program. HUD must embrace a 21st century vision for supporting the affordable housing and community development sector and will reframe the Section 4 program, including renaming the program "Capacity Building", in order to reflect that vision. The objective is to expand HUD's funding capabilities, and encourage open competition through mainstream and consistent program funding for these activities.

Working with cities and states to readily understand how to meet the needs of their communities, leverage private and other kinds of resources, and align existing programs is fundamental to building resilience in tough economic times. Increasing capacity at the local level is critical as jurisdictions partner with the Administration in implementing key initiatives such as Choice Neighborhoods, Sustainable Communities, and the Catalytic Competition and work to restore the economic vitality of their communities. This enhanced program will include local governments as technical assistance service recipients.

- ***Takes Choice Neighborhoods to scale***

The Administration has also proposed authorizing legislation for Choice Neighborhoods, funded at $65 million in fiscal year 2010 on a demonstration basis, and at $250 million in the 2011 Budget. I am appreciative that Congress was willing to fund Choice Neighborhoods on a demonstration basis in fiscal year 2010, and HUD is now requesting that the program be expanded to a level where its impact can be significantly broader.

This initiative will transform distressed neighborhoods where public and assisted projects are concentrated into functioning, sustainable mixed-income neighborhoods by linking housing improvements with appropriate services, schools, public assets, transportation, and access to jobs. A strong emphasis will be placed on local community planning for school and educational improvements including early childhood initiatives. Choice Neighborhood grants would buildupon the successes of public housing transformation under HOPE VI to provide support for the preservation and rehabilitation of public and HUD-assisted housing, within the context of a broader approach to concentrated poverty. In addition to public housing authorities, the initiative will involve local governments, non profits and for profit developers in undertaking comprehensive local planning with input from the residents and the community.

Additionally, HUD is placing a strong emphasis on coordination with other Federal agencies, with the expected result that Federal investments in education, employment, income support, and social services will be better aligned in targeted neighborhoods. To date, the Departments of Education, Justice and HHS are working with HUD to coordinate investments in neighborhoods of concentrated poverty, including those targeted by Choice Neighborhoods. We have forwarded our legislative proposal to this Committee and its House counterpart and look forward to working with you to enact it.

- ***Protects consumers from discrimination in the housing market and affirmatively furthers the goals of the Fair Housing Act***

The Budget proposes $61.1 million in support of the fair housing activities of HUD partners. Some sources estimate that more than 4 million acts of housing discrimination occur each year. To meaningfully address that level of discrimination, the Department, in addition to directing its own fair housing enforcement and education efforts, must engage outside partners. Therefore, this budget funds state and local government agencies to supplement HUD's enforcement role through the Fair Housing Assistance Program (FHAP) and provides funding also to nonprofit fair housing organizations that provide direct, community-based assistance to victims of discrimination through the Fair Housing Initiatives Program (FHIP). The entities participating in the two programs both help individuals seek redress for discrimination they have suffered and help eliminate more wide-scale systemic practices of discrimination in housing, lending, and other housing-related services. This Budget provides $28.5 million to state and local agencies in the FHAP and $32.6 million to fair housing organizations through the FHIP.

This budget does not continue a $10 million initiative within the FHIP program, funded in fiscal year 2010, specifically directed at mortgage lending discrimination. However, fair housing funding, generally, and FHIP funding, in particular, remain substantially higher than in fiscal year 2009. Overall, the $61.1 million requested this year for fair housing activities overall represents a 12 percent increase over fiscal year 2009's enacted level of $53.5 million, and the $32.6 million requested for FHIP, in particular, is fully 18 percent above the $27.5 million in FY2009.

Since its passage in 1968, the Fair Housing Act has mandated that HUD shall "affirmatively further fair housing" in the operation of its programs. This requires that HUD and recipients of HUD funds not only prohibit and refrain from discrimination in the operation of HUD programs but also take pro-active steps to overcome effects of past discrimination and eliminate unnecessary barriers that deny some populations equal housing opportunities. To assist recipients in meeting these obligations, the Department is revising its regulations to clearly enumerate the specific activities one must undertake to "affirmatively further fair housing" and the consequences for failure to comply. To support this effort, $2 million of the FHIP budget will support a pilot program whereby fair housing organizations help HUD-funded jurisdictions comply with these regulations.

Finally, I want to emphasize that as HUD works through the Choice Neighborhoods initiative and across all of its programs to revitalize neighborhoods, and to enable families to choose to move to other neighborhoods with lower poverty and greater economic opportunity, HUD will strive to ensure that newly revitalized neighborhoods remain affordable, inclusive places for low-income people to live.

Goal 5: Transform the Way HUD Does Business

In light of recent natural disasters and the housing and economic crises, last year HUD saw a pressing need for adaptability and change. To become an innovative agency with the capacity to move beyond legacy programs, shape new markets and methods in the production and preservation of affordable housing, green the nation's housing stock, and promote sustainable development in communities across America, the Department had to remake itself.

To accelerate the Department's transformation, the fiscal year 2011 Budget makes the following vital reforms.

- ***Develops a basic data infrastructure and delivers on Presidential research and evaluation priorities***

HUD requests $87 million for the Office of Policy Development and Research, an increase of $39 million from FY 2010, to continue the transformation of PD&R into the nation's leading housing research organization. The role of housing in starting the economic crisis, and the importance of housing issues to the nation's economy, shows the urgent need for this research. These funds would be used for three critical activities:

Basic Data Infrastructure. Continue the investment made in fiscal year 2010 to support the collection and dissemination of the core data needed to support effective decisionmaking about housing. HUD's request for this purpose is $55 million, which is $7 million more than the fiscal year 2010 appropriated level of $48 million. This will be used to conduct housing surveys—including full funding for the American Housing Survey—support enhanced research dissemination and clearinghouse activities, and underwrite a Young Scholars research program. Presidential Research and Development Initiative. As part of the Administration's Research and Development initiative that is tied to the President's national goals of energy, health and sustainability, the Department proposes to administer $25 million for research on the linkages between the built environment and health, hazard risk reduction and resilience, and the development of innovative building technologies and building processes.

Presidential Evaluation Initiative. Also for fiscal year 2011, the President is proposing to fund rigorous evaluations of critical programs to inform future policy discussions. The $7 million proposed will supplement funding from the Transformation Initiative set-aside to support rigorous evaluations of the Family Self-Sufficiency Program, potential Rent Reform strategies, and the Choice Neighborhoods program.

- ***Maintains the Department's existing technology infrastructure***

HUD requests $315 million for the Working Capital Fund, to cover the steady state operations, corrective maintenance of HUD's existing technology systems, and the re-competition of HUD's infrastructure support contract. As with fiscal year 2010, this does not include the "next generation technology" development that would be funded through the Transformation Initiative, as described below. The bulk of the fiscal year 2011 request ($243.5 million) would be in the form of a direct appropriation. In addition, HUD seeks a $71.5 million transfer from FHA to pay for its share of infrastructure costs and system maintenance.

- ***Provides flexibility and resources needed to fuel agency transformation***

As in fiscal year 2010, the Department again seeks the authority to set-aside up to 1 percent of HUD's total budget for an agency wide Transformation Initiative.

HUD's FY 2010 Transformation Initiative was intended to indeed be transformational. The resources it provides are allowing us to take long-overdue steps to upgrade and modernize our department and allow it to function as a 21st century organization. As one example, it is helping us replace computer programs written in COBOL in the 1980s with those written in the flexible and powerful languages of 2010. In addition, HUD has not conducted a major demonstration since the 1990s, when the Moving to Opportunity study was conducted. This demonstration is still yielding important evidence on how mobility and rental assistance interact that guides policy. And local government capacity to effectively use Federal resources varies widely and leaves some communities at risk of always lagging the pack.

Further, even in the instance that efforts such as technical assistance were adequately funded, they were funded in silos—making cross-cutting initiatives that achieve the biggest bang for the buck next to impossible.

The TI approach we propose—allowing for the flexibility to take ***up*** to 1 percent of our budget and devoting it to four key areas—is similar to the approach applied by many cutting-edge institutions. This recognizes not only the need to have funding targeted to overhead—but the ability to respond to changing circumstances that may require overhead to consume an increased share of the budget, a change in the mix of activities funded and cross-cutting initiatives.

The flexibility inherent in this TI structure allows for the more nimble, responsive agency required in a long budget process where individual research ideas or investment proposals made in January might have been usurped by developments through the course of the year. A good example would be the $50 million in Neighborhood Stabilization technical assistance HUD made available to communities through ARRA. Full funding of the Transformation Initiative will enable HUD to take such an approach to scale and continue the delivery of a new level of technical assistance and capacity building to Federal funding recipients, recognizing that human capital, technical competence and institutional support are critical for the success of HUD's partner organizations.

And while we appreciate that fact that Congress did recognize this reality in funding this effort for FY 2010 at $258 million, which has begun an important process of increasing investment and bridging silos, we renew our request for authority to use up to 1 percent. I would note that this past year we received 110 groundbreaking research, information technology and technical assistance proposals internally—but we were only able to fund a little over half of these requests. Further, of the demonstrations and IT projects that were funded in 2009, many were multi-year projects that we have had to plan and operate, in all but the most urgent circumstances, with single-year funding.

Salaries and Expenses Central Fund: Building on the principle of the Transformation Initiative, the Budget requests the creation of a Salaries and Expenses Central Fund, funded through a 1-percent transfer from each of HUD's salaries and expenses accounts. The Fund will provide targeted, temporary infusions of resources to any of HUD's program offices in order to increase our responsiveness to unanticipated crises and new challenges through the hiring of staff with appropriate expertise. One example of how this type of funding might be used would be in the instance of a national disaster—in response to which HUD would be expected to play a key role. Another would be FHA, which inside of 3 years has temporarily expanded from insuring 2 percent of the market to, as mentioned previously, approximately a third.

Conclusion

In sum, this Budget continues the transformation begun with the 2010 Budget. With the housing market showing signs of stabilization, our economy beginning to recover and the need for fiscal discipline crystal clear, now is the moment to reorient HUD for the challenges of the 21st century—retooling its programs and initiatives so it can better fulfill its mission to serve American households and communities more effectively and more efficiently over decades to come. I am proud of the progress we have begun to make in these areas with the support of Congress, and I look forward to our continued progress through the proposals outlined in the fiscal year 2011 Budget. Thank you again for the opportunity to appear before you to discuss HUD's proposed budget. And with that, Mr. Chairman, I would be glad to answer any questions.

RESPONSE TO WRITTEN QUESTIONS OF CHAIRMAN DODD FROM SHAUN DONOVAN

Q.1. In Connecticut, in addition to cities like Hartford and New Haven, we have many small towns.

It seems clear that promoting transit-oriented development can benefit large suburban communities and cities, but how can this sustainable communities agenda benefit small towns, such as Torrington, CT, as well as rural communities?

A.1. Our Sustainable Communities Initiative is designed to assist both metropolitan *and* rural communities to address the challenges that of population growth or decline, land use, housing, transportation and other critical environmental issues. Rural communities face special challenges. Past transportation policies resulted in Main Streets in many rural communities being bypassed by the interstate highway system, contributing to the decline of once-vibrant business center. Closer in, many rural communities are struggling with the loss of farm land and open space as a result of our current dispersed patterns of development. Transportation costs are often significantly higher for residents of rural communities, especially with longer commutes to employment centers, and housing choices tend to be more limited in these areas.

For that reason, we have specifically targeted rural communities and small towns in our proposed initiatives. In 2000, over 50 percent of all people living in what the Census Bureau defines as "rural areas"—places with relatively low population density—actually lived within the boundaries of metropolitan areas. That percentage was up from 40 percent in 1980. These communities will benefit from sustainable planning grants that will be made available to up to 20 metropolitan areas. One outcome of these grants will, we hope, be the preservation of open space and farmland in rural areas, as well as increased transportation and housing choices that benefit these outlying communities. Better coordination of housing and transportation will lead to policies and programs that protect and safeguard open space and agricultural land in rural areas.

We also propose to provide planning grants to rural areas outside metropolitan areas: up to 10 grants will be specifically set aside for these areas. In addition, we have proposed a $25 million Rural Innovation Fund that will focus on high poverty distressed rural areas that have a good chance of revitalization given their location. The Rural Innovation Fund will encourage communities to employ a more integrated approach dedicated to addressing the problem of concentrated rural housing distress and community poverty. Similar to the Choice Neighborhoods Initiative, the Fund will specifically target areas of high economic distress that demonstrate the potential of revitalization given their location.

These commitments are contained in the sixth—and perhaps the most important—of the six "Livability Principles" that we announced in June, along with DOT and EPA. This principle specifically addresses the value we attach to rural communities:

- ***Value communities and neighborhoods:*** *Enhance the unique characteristics of all communities by investing in* *healthy, safe and walkable neighborhoods—rural, urban suburban.*

The bottom line, we believe, is that we are developing new, unprecedented approaches to incentivize the use of Federal funds toward investments in existing infrastructure and existing communities that will benefit rural as well as urban communities.

Housing Affordability

Q.2. In the recent housing crisis, foreclosure rates on homes near transit have been lower when compared to homes not near transit, and housing prices near transit have remained relatively stable. This suggests that the affordability of housing is not just about housing cost, but about the combined cost of housing and transportation.

What can the Federal Government do to help consumers get the housing and transportation cost information they need to make informed housing choices?

A.2. There is increasing evidence that high transportation costs, while not a cause, may be a contributing factor to high foreclosure rates in outlying communities. In my testimony before this Committee I reaffirmed my commitment to redefining our definitions of affordability to address high transportation costs. We are looking closely at a variety of models, such as the Housing and Transportation Index, developed by the Center for Neighborhood Technology, in partnership with the Brookings Institution, the Urban Land Institute and others, as well as other models, that can provide consumers with the "true" cost of housing—including transportation costs—when they make critical choices when buying or renting a home. A simple measure of the "location efficiency" of a home, which would provide consumers an indication of the cost of transportation associated with particular locations will go a long way to helping them make informed decisions. It can also help lenders incorporate location efficiency in their mortgage underwriting decisions. The HUD–DOT–EPA Interagency working group is also looking at the policy implications applications for this tool.

I am committed to working with DOT and EPA to develop a transportation "index" for homes, just as I have committed to a standard energy "label" for homes that can provide a simple measure of energy efficiency, and for the same reason: to provide consumers with better information about the costs associated with their homes—both transportation and energy costs—and to provide lenders with a tool that will enable them to address these costs (and perhaps provide attractive financing) when underwriting mortgages.

We will need to research and then implement ways to provide this kind of information to all stakeholders, including consumers, planners, and local officials, financial services institutions and other officials. We will need to work with the real estate industry and lending community to identify the best strategies for getting this information to consumers in the most useful way.

We also will need to close data gaps that will strengthen these tools, by collecting additional data through the American Housing Survey, and forming an exploratory partnership with the Census

Bureau and Bureau of Labor Statistics to improve the data we collect on housing and transportation costs associated with locations. Current sample sizes appear to be too small to gather data below the metropolitan level, and we don't have a good way to distinguishing between households with different numbers of cars.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SHELBY FROM SHAUN DONOVAN

Q.1. Secretary Donovan, many of the goals set forth by the Sustainable Communities Initiative would seem to further priorities that would result from decisions traditionally made by state and local officials, such as the type of zoning and city planning required for many of these high density projects. While some communities will certainly wish to pursue these designs, other may not believe this would be in their best interests. What safeguards will be put in place within HUD to ensure the continued independence of local officials in the design of their communities? If state and local officials do not pursue the initiatives and priorities of this office, will there be any negative consequences as it relates to other Federal programs or funding?

A.1. HUD does not intend to mandate new zoning or city planning requirements. HUD is ensuring the continued independence of local officials by encouraging innovative local and regional plans to guide local and regional decisions. The design and implementation of these plans will occur in the context of that community's preferences or priorities. In addition, communities have the choice to seek funding under HUD's proposed Sustainable Communities programs. Applying will be purely voluntary, and compliance with program requirements will be dependent on whether or not the community seeks funding to support their own innovative planning projects.

More broadly, as a former city housing commissioner, I am all too aware of the need to preserve local prerogatives when it comes to land use and zoning, and other planning decisions. We do not intend to pre-empt this local role. Nor will there be negative consequences for those who do not pursue the initiatives and priorities of the office.

Q.2. Secretary Donovan, one of the factors cited as a reason for the Federal Government to take action in promoting housing, which offers the convenience of the option to walk for many goods and services, is an identified pent-up demand for these types of communities. Given this, and given the goal of including affordable housing within these developments, how does HUD plan to ensure that affordable housing goals do not crowd out other Americans who are seeking to reside in these communities? Additionally, how do the costs of providing affordable housing within these settings compare with the cost of providing affordable housing in other types of communities within the same metro areas?

A.2. Some of the earliest developments featuring transit oriented development (*e.g.,* Fruitvale, CA, Lake-Pulaski, Chicago) were initiated by nonprofits interested in providing affordable housing. A key reason for these developments is the understanding that access to transit is essential for low and moderate income people to reach employment and shopping. However, anecdotal evidence suggests that just the opposite is happening. Upper income housing is crowding out affordable housing in transit oriented development sites. There are a number of reasons but the cost of land and site development around transit sites appears to be chief among them. Transit oriented development is perceived by the market as being amenity rich and, therefore, desirable as a place to live.

In fostering transit oriented development, we see the issue not as one where middle and upper income families would be unable to live in the developments, but one where low and moderate income families could not afford the cost of housing in such developments. Costs for land acquisition, potential brownfields remediation, provision of parks and open space, and community outreach, that are part of transit oriented development can be prohibitive for an affordable housing developer. We also have anecdotal evidence that existing affordable housing in a transit oriented development area becomes attractive and the prices for acquisition and/or rent escalate beyond the ability of low- and moderate-income families to pay. We are looking for a situation where all income groups can benefit from transit oriented development, and no group is disadvantaged as a result of the development

Q.3. Secretary Donovan, obviously the needs and capabilities of rural communities are going to differ greatly from the needs and capabilities of more urban areas. If a larger mixed use development may not be economically viable in a smaller, more rural community, how will HUD ensure that these communities will be able to participate in the Sustainable Communities Initiative if they wish to do so?

A.3. Addressing the needs and concerns of rural communities is a critical element of our Sustainable Communities Initiative. Larger mixed use developments are clearly viable only with sufficient population, services and amenities that are typically associated with urban areas. Since more than half of residents living in what the Census Bureau defines as rural communities also live within metro area boundaries, these developments mean less demand for greenfield sites—open space and agricultural land—that in turn will benefit these rural areas. In addition, HUD has proposed setting aside a portion of the regional planning grants requested in our fiscal year 10 budget for rural communities, to address the unique challenges and solutions to housing and transportation issues and land use in these communities.

Please refer to our response provided to Senator Dodd in Question #1 for further discussion of how we intend to address the needs of rural communities.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SCHUMER FROM SHAUN DONOVAN

Q.1. Secretary Donovan, as you know well from your time as Commissioner of the Department of Housing Preservation and Development in New York City, urban areas face particular challenges in trying to make their existing housing stock, and especially their affordable housing, more green.

What plans does HUD have to try and incentivize owners of affordable housing to undertake these green efforts in existing projects?

A.1. HUD is taking an aggressive role in "greening" our own housing programs, as well as creating partnerships with other agencies that have energy efficiency or green funds that can be used for housing. For example, the Department recently executed a Memorandum of Understanding with the Department of Energy that, once a final rule is published, will make it easier for owners of HUD-assisted projects to qualify for DOE's weatherization program, by eliminating duplicative income verification requirements.

In privately owned assisted housing, the Department is working on regulations to provide incentives to owners that "green" their properties, including increased distributions to for-profit owners, allowing distributions to non-profit organizations, and increased fees to the property management agents for implementing energy improvement plans.

Under the Recovery Act, the Department also received $250 million for a green retrofit program for existing HUD-assisted projects that provides grants and soft loans to owners to complete the necessary "green" improvements. This is an expansion of the Mark to Market green retrofit program, which incentivizes energy efficiency and green by lowering the matching contribution required from the owner from the standard 20 percent to just 3 percent of the cost of rehabilitation. This is a strong incentive for owners participating in the Mark to Market program to "go green."

The Department's FY 2010 budget request for an Energy Innovation Fund includes $25 million to retrofit multifamily projects through HUD's existing mortgage insurance programs. These funds will reduce or offset mortgage insurance premiums and/or reduce application and inspection fees if owners achieve greater levels of energy efficiency in their projects.

Public housing is also getting additional resources to green their housing stock. Housing authorities are receiving $4 billion this year in additional Recovery Act capital funds for energy efficiency, green and other upgrades—$3 billion in formula grants, and $1 billion in competitive funds. $600 million has been made available specifically for high-performing green projects that meet Enterprise Green Communities standards, and for other high performing energy retrofit projects (*i.e.,* that achieve 30–50 percent in energy savings).

These efforts are just the beginning of a broad-based effort that we expect to undertake, under the leadership of Deputy Secretary Ron Sims and the new Office of Sustainable Housing and Communities, to incentivize energy efficiency in the affordable housing sector. With outlays of more than $5 billion annually, this is an area where there is room for more significant savings, both for the owners of public and assisted housing, as well as the taxpayer. We expect to undertake an extensive review of current incentives (or lack thereof) and to strengthen these, as well as to set strong energy efficiency performance goals that have been missing from the Department's efforts in the past. We will also work closely with national intermediaries, such as LISC and Enterprise Community Partners, Habitat for Humanity, as well as Housing Finance Agencies and others to build energy efficiency and green into affordable housing. We will keep the Committee apprised of these proposals and initiatives.

Q.2. Each of you have outlined the need for coherent national policy, with long-term goals and indicators of success in working to develop more sustainable, energy efficient and clean communities, that needs to be coordinated across each of your agencies.

As you know, my state has one of the largest urban areas in the country, as well as some of the most rural. How are the policy initiatives that your respective agencies are undertaking going to affect both urban and rural areas? How do they fit into the vision of a coherent national policy on greening, energy efficiency, and emissions reduction? How can Congress help you to achieve this goal?

A.2. Addressing the needs and concerns of rural communities is a critical element of our Sustainable Communities Initiative.

We have specifically included rural communities and small towns in our proposed initiatives. First, many of these small towns are in metropolitan areas, so they will be covered as part of a larger metro area-wide strategy. Second, we will be committing a share of our proposed regional planning grant funds to rural areas, outside metropolitan areas. They have special needs and challenges. That's why we have proposed a $25 million Rural Innovation Fund that will specifically focus on high poverty distressed rural areas that have a good chance of revitalization given their location.

Beyond the specific funds that we hope Congress will appropriate for our Sustainable Communities Initiative, the Livability Principles that HUD, EPA and DOT adopted in June and announced before this Committee are very clear about the importance of sustaining rural communities.

These principles, and the Sustainable Communities partnership that we have formed to implement them, represent a sea-change for the Federal Government in its interactions with local governments, both rural and urban. They are about restoring the centrality of *place* in Federal policies and programs, and the need to better coordinate Federal investments to support environmentally and economically sustainable visions of growth in our urban and rural areas. With 40 percent of carbon emissions coming from buildings, and another 23 percent from transportation, more attention to compact forms of urban development, and sustainable transportation policies, will be critical elements of both a national climate change strategy as well as national urban policy.

Fundamentally, we can no longer afford to have housing, transportation and environmental policy operate in separate silos. The $150 million in planning, research and community development initiatives included in our fiscal year 10 budget request are intended to support models that can be replicated in other parts of the country of joint housing, transportation and land use planning. Both the regional metropolitan and rural area planning grants ($100 million) and the community challenge grants ($40 million) are intended to provide models that can be replicated elsewhere. We hope to develop a template that other communities can use to show that more coordinated regional and local planning will result in better use of housing and transportation funds that address location efficiency and land use concerns. This will, we hope, translate into expanded housing choices near transit, and preservation of existing affordable housing near transit.

Congress can assist us in achieving these goals by providing support for our Sustainable Communities Initiative, along with complementary proposals from DOT and EPA; by supporting improved data collection and research that will enable both the Federal Government and local communities to better assess and measure the combined costs of housing and transportation, and develop indicators of success; by incorporating livability principles in reauthorization of our nation's transportation programs; and by supporting more disclosure of the true costs of location choices, through the development of such tools as the Housing and Transportation Affordability Index; by enabling HUD to offer enhanced underwriting through location, and energy efficient mortgages, that recognize the lower costs associated with location and energy efficiency; and by enabling HUD and DOT to better coordinate their respective planning requirements.

Please refer to the response provided to Senator Dodd in Question #1 for further discussion on rural communities.

RESPONSE TO WRITTEN QUESTION OF SENATOR MENENDEZ FROM SHAUN DONOVAN

Q.1. Let me recognize and applaud the Administration's sustainable and livable communities' effort to bring together transit, housing, and environmental benefits. Which agency will serve as the base for this multi-agency effort? Have you thought about coupling HUD and DOT's efforts with additional funding from sources such as the Community Development Block Grant program?

A.1. With regard to the Sustainable Communities Partnership between HUD, EPA and DOT, this is a co-equal partnership with no single lead of this multi-agency effort.

However, with regard to the Sustainable Communities Initiative, for which HUD has requested $150 million to provide planning grants and innovative challenge grants to local communities, HUD will be the lead agency in administering those funds, in partnership with DOT and EPA. HUD's new Office of Sustainable Housing and Communities will be responsible for administering the planning grants, as well research and data systems development which are central to the program's mission.

With regard to coupling additional funding from other sources, such as CDBG, we are exploring how we can encourage local communities to tap these funds. One way to move in this direction is to coordinate HUD's Consolidated Plan, which governs the use of CDBG funds, with DOT metropolitan planning requirements.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR BENNET FROM SHAUN DONOVAN

Q.1. A nice, new neighborhood that is far away from good jobs and good schools will not be a nice neighborhood for long. How can Washington's policy expertise and resources be harnessed most effectively with local leaders who understand a local jobs market and who know where the good schools are? I'm impressed with what I'm seeing from this panel—the Administration obviously intends to take an integrated approach. But local housing and urban planning experts have the applied knowledge of how particular communities work—how transit can interact with affordable housing, for instance. In short, how does Washington do a better job of helping particular cities integrate their planning decisions?

A.1. We share your view that local officials have the best knowledge of their communities and are in the best position to make these linkages. The Federal Government can support local leadership and expertise in several ways:

- By providing support for coordinated planning and investments. Local leaders often do not have the resources to undertake the planning and policy reviews necessary to develop more sustainable regional plans. The purpose of HUD's Sustainable Communities Initiative is to provide funding to these localities for coordinated regional housing and transportation planning. In joint collaboration with DOT, HUD has requested $100 million to enable metropolitan and rural areas to set a vision for growth and then apply Federal transportation, housing, and other investments. Funds would be used to support the development of integrated, state-of-the-art regional development plans that use the latest data and most sophisticated analytic, modeling, and mapping tools available. We have also asked for $40 million in Community Challenge grants to entice metropolitan and local leaders to make market-shifting changes in local zoning and land use rules. The grants will also assist states and localities to design and implement a variety of planning reforms at the local and regional levels.
- By removing its own barriers to coordination at the local level. With few exceptions, neither HUD nor DOT examine location efficiency (*e.g.,* the potential location of affordable housing developments near transit) nor encourage smart zoning and planning reform when allocating resources under a broad array of programs.

Federal requirements for transportation and housing planning are particularly disconnected. HUD requires states, cities and counties, as a condition to receiving formula grants, to prepare a 5-year Consolidated Plan, as well as an annual Action Plan, estimating housing status and needs. These plans do not take land use or transportation into account, and are for cities and urban counties (and states), not regions. At the same time, DOT requires states and metropolitan areas to develop a 20-year Long Range Transportation Plan and a 4-year Transportation Improvement Program (TIP). HUD and DOT are currently assessing how these disconnected planning processes can be better coordinated. Ideally, a single housing-transportation plan would eliminate any and all duplication.

- By developing information sharing platforms, analytic and mapping tools to facilitate local coordination. HUD has requested $10 million in fiscal year 10 funds to support such activities as the development and dissemination, for example, of the Housing and Transportation Index, which would enable communities to better understand the role that transportation expenditures play in housing choices, and to enable them to plan for more compact, walkable, mixed use development.

- Finally, the Federal Government can incentivize local communities to integrate planning decisions through its various grant programs. HUD and DOT are currently assessing how, for example, which programs might accommodate additional points when scoring competitive grant applications. For example, HUD recently included several points in its $2 billion Neighborhood Stabilization Program competitive grant program ("NSP 2") for proposals that either had or proposed to increase access to transit. This is an important precedent for other programs. HUD's Section 202 Supportive Housing Program for the Elderly also has transportation provisions. But these are the exceptions, not the rule; we will be looking for further opportunities for such incentives through our grant programs.

Q.2. Efforts to support mixed income development fall short without good schools. Secretary Donovan, how can you work with local education officials to strategically support school reform and to construct new schools in locations that complement innovative development efforts?

A.2. The link between housing and schools is a priority for HUD. Incentivizing communities to include schools in neighborhood revitalization plans is the best strategy for HUD to strengthen the linkage between housing and education. We know we cannot break the cycle of poverty without good schools. From another perspective, communities and cities themselves cannot attract residents and businesses needed for revitalization without good schools.

These principles were incorporated in the HOPE VI program, with significant success, in several locations. In King County, Washington state, the King County Housing Authority (KCHA) deeded over land, at no cost, to the King County United School District so the School District could build a new elementary school as part of Greenbridge, the new HOPE VI public and affordable housing community. A Boys and Girls Club and a Head Start facility were also built on the land donated by KCHA and HUD. In addition, KCHA worked with the school district in connection with relocation of residents and their school age children to allow flexibility and choice in where kids attended school. That same model of donated land for public school construction, the providing of social services for at-risk children, and flexibility and choice in where school kids were able to attend school in connection with relocation activities was repeated in many HOPE VI developments across the country including: Salishan, the HOPE VI development in Tacoma, Washington where Lister Elementary School was built; the William Wells Brown Elementary School was built and located at the heart of the Bluegrass HOPE VI Revitalizationsite, Lexington Housing Authority, Lexington, Kentucky; Centennial Place Elementary School was built in cooperation with the Atlanta Housing Authority's HOPE VI Centennial Place Community; Rosa Parks Elementary School was built at Portland Housing Authority's New Columbia HOPE VI; High Point Elementary School is located directly adjacent to the Seattle Housing Authority HOPE VI (and green) community of High Point; and many more schools and school support facilities were built as a result of HOPE VI development.

A key HUD FY 2010 budget proposal, Choice Neighborhoods, the successor program to HOPE VI, continues this focus on schools as a critical element of neighborhood revitalization. Choice Neighborhoods will help build neighborhoods that are safer, stronger, and have access to good educational opportunities as well as community facilities, institutions and services. Local partnerships will be required to include an education component to cover a gamut of possible local approaches for early childhood initiatives, health education, and resources for parents, school improvements and other education-related services.

Q.3. I am glad you include rural communities in your plans for sustainable development. Can you talk specifically about the challenges to employing sustainable development initiatives in rural areas? Are there opportunities to work with the Department of Agriculture on these efforts?

A.3. Addressing the needs and concerns of rural communities is a critical element of our Sustainable Communities Initiative. There are significant opportunities to partner with the Department of Agriculture. Secretary Vilsack and I have discussed this partnership, and HUD staff have met with senior USDA staff to identify possible linkages, in the area of economic development, health, water infrastructure, housing and transportation planning and policies. I am hopeful that we can formalize this partnership in the near future.

Please see response to Senator Dodd (Question #1) for a further discussion of the challenges that face rural areas in developing sustainable communities, and our plans to address their needs and concerns.

Q.4. A critical component of effective development is buy-in and participation from residents. Will the incentives for regional planning include incentives to integrate local residents into the planning process?

A.4. Yes. Clearly, for planning to be meaningful and sustainable, buy-in from local citizens and stakeholders is critical if not decisive for its long-term success. Without sufficient participation at every step of the way, plans will not reflect local ideas, local interests, or diversity of local views, nor are they likely to secure commitments for implementation. HUD's Consolidated Plan already has significant public participation requirements and we would expect our regional planning efforts to have at least that level of public participation.

There are additional ways to secure participation, through such tools as the design charrette, which has been used successfully by "New Urbanist" and other architects, designers and planners in engaging local residents and stakeholders, as well as other techniques that have been successful in enabling local citizens to begin to envision alternative futures. In California, the Sustainable Blueprint process pioneered in Sacramento involved extensive citizen participation, that resulted in developing alternative growth scenarios for that region, and the state has subsequently adopted this model for transportation planning statewide.

Q.5. As you know, most HOPE VI projects have been successful at leveraging public and private resources to displace the concentrations of poverty we have seen in our cities. But initiatives like HOPE VI, though critically important, can run into local trouble when local residents worry that losing affordable housing stock will displace people and break apart communities. In short, what's good for a community in the long run can be terribly disruptive in the short run. What lessons have we learned from past setbacks at managing local expectations, that we can apply moving forward? How can HOPE VI be made to work better at managing local expectations?

A.5. Our experience has shown that it is important to actively involve residents and other community stakeholders throughout the entire redevelopment process, from early discussions on the design plan through occupancy after all units have been completed.

The more each party is aware of the goals and objectives of the plan, as well as the obstacles and constraints, the more in sync everyone is. This is especially true for the residents. As such, the HOPE VI program requires applicants to hold extensive planning sessions with affected residents and community partners prior to submitting the grant application.

Applications that commit to continuing outreach and involvement are more competitive. Grantees are required to begin case management activities with residents within 30 days of grant award. Case managers help residents throughout the redevelopment process, especially during relocation.

Q.6. The HUD budget proposal for the Sustainable Communities Initiative to provide $100 million for Metropolitan Planning Organizations and cities or counties that receive CDBG and HOME funds to collaborate on regional plans that integrate housing, land use, and transportation, and $40 million to provide challenge grants for local land use changes that support regional objectives.

I can see the value of these from recent Denver experience. For example, the City, MacArthur Foundation, Enterprise Communities, Denver Foundation, and local banks have capitalized a $15 million 10-year Transit-Oriented Development (TOD) Fund, which will provide financing to preserve and create affordable housing within ½ mile of rail service and a quarter mile of high-frequency bus routes. The fund will target existing federally assisted rental properties; existing unsubsidized rental properties currently affordable to households below 60 percent of area median income; and currently vacant or commercial properties with desirable locations for new affordable housing. The Fund will enable holding properties for up to 5 years, which is considerably longer than most similar funds allow, but given the market conditions near transit stations, it will provide the maximum flexibility to secure long-term subsidies to preserve existing rental housing. But at $15 million, it still is underfunded for the need and impact.

Is that the type of programmatic activity you would seek to finance under these programs? Can you give specific examples, the funding criteria and outcome measures you would expect to apply, and how would you operationalize them?

A.6. The Denver investment in land acquisition and housing preservation—with support from the MacArthur Foundation and others—is exactly the kind of investment that we would hope to see result from HUD's Sustainable Communities Initiative grants. It's a model of what is needed to preserve existing affordable housing, as well as assist communities to address the high cost of housing often found near transit to acquire land at affordable prices for future development. At this time, it is not HUD's intention to directly fund implementation grants for specific projects of this kind, but rather to provide funding for planning and technical assistance that will result in communities directing Federal, state and local housing and transportation funds for these kinds of projects.

Sustainable Communities grants will enable metropolitan regions to develop integrated housing, land use, and transportation plans, and to use those plans to drive decisionmaking with regard to investments in transit, location efficient housing, and other sustainable community projects. Similarly, Community Challenge grants will enable local communities to develop innovative land use, zoning and other strategies. HUD's CDBG, HOME, and FHA multifamily housing programs, among others, as well as DOT-funded programs, could then play a role in funding the specific implementation projects that are identified in the initial plans.

With regard to funding criteria, HUD proposes to give preferences to applications that:

- demonstrate capacity for long-term structural collaboration between the disparate housing, transportation and planning agencies;
- engage business, government and civic leaders and the general public in shaping a shared vision;
- demonstrate the intent to use planning to drive both local land use decisions and allocation of Federal resources; and
- go beyond transportation, housing, and land use issues to integrate other key elements of the built environment, including economic clustering, energy usage and environmental impacts.
- how communities have responded to the issue of land acquisition; applicants will be encouraged to include a description of how land is acquired—through various approaches, including CDBG funding—for the purpose of developing and providing housing near transit.

Outcome measures will include but are not limited to:

- increasing the percentage of very low-income households for which the combined sum of housing and transportation costs falls within affordability thresholds;
- decreasing the mean transit time between rental units affordable to very low-income renters and major employment nodes in each metropolitan area (or similar accessibility metric to be developed);
- reducing vehicle-miles traveled in each metropolitan area; and

- increasing the percentage of households commuting to work by public transit, bicycle, or on foot.

HUD is currently working with DOT and EPA to develop a more detailed set of performance measures. We expect to share these with the Committee once they are developed. Grantees will be expected to track and report on performance indicators as a requirement of grant funding.

RESPONSE TO WRITTEN QUESTION OF SENATOR CRAPO FROM SHAUN DONOVAN

Q.1. As you know, there is a Section 8 funding shortfall happening to a number of PHA's around the country. The Boise City/Ada county Housing authority has notified me that based on the funding notice it received in May from HUD, for the period retroactive to January 1, 2009, it is approximately $1 million short and is preparing to terminate 400–500 families from assistance. While I don't have information to indicate the full scope of the problem nationwide, it is my understanding that a significant number of PHA's are facing similar decisions. While some appeal funding has been set aside, considering that families receiving assistance are among our most vulnerable, and landlords count on rental payments to offset their property costs, and communities stand to lose more economic stability in an already unstable economic climate, what is the Department prepared to do to address a crisis which may greatly exceed the funding that has been made available to honor existing assistance contracts?

A.1. The Boise/Ada County Housing Authority sent letters to 95 families the week of June 29, 2009 informing them that after July, they would no longer receive vouchers under Section 8. However on July 8, 2009, the housing authority rescinded the notices.

Per Federal regulations, housing authorities are required to use reserves in the event of a funding shortage. HUD ordered the Boise/Ada County Housing Authority to use its administrative reserves to help cover the cost of keeping these families on assistance, rather than terminating them from the program.

HUD determined that by engaging Boise/Ada County's administrative reserves coupled with $187,000 in emergency funding, we could gap the shortfall and keep those 95 families off the street.

It is true that Boise/Ada County is not the only Section 8 housing authority experiencing a shortfall this year. Much of our challenge is due to additional leasing by the housing authorities in response to increased housing need as well as per unit cost expenses that are, in some cases, 25 percent higher than historic levels.

Based on data from the housing authorities themselves, of the 2,400 that administer Section 8, less than 10 percent are experiencing a shortfall. HUD is aggressively working with each of these housing authorities to identify the best possible solutions to minimize the impact on families.

HUD's sole focus and commitment is to ensure that the families who are currently being assisted do not face the financial burden of termination.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR CORKER FROM SHAUN DONOVAN

Q.1. Due to the challenges in the financial sector, hospitals that are looking to expand their facilities or construct new facilities that are needed in certain areas are unable to get the financing necessary for these projects. Two HUD loan programs, Section 232 and Section 242, provide much needed assistance to our health care facilities and have played an important role in filling the credit void that exists for many borrowers.

Based on your interpretation of eligibility, is it possible for psychiatric hospitals to be eligible for either of these programs? If so, what are the terms of eligibility? If they are not, please offer your comments on the expansion of these programs to include these facilities.

A.1. Language in the Section 242 statute rules out the use of this section to insure loans to psychiatric hospitals:

> (1) the term "hospital" means a facility—
>
> * * * *
>
> (B) not more than 50 per centum of the total patient days of which during any year are customarily assignable to the categories of chronic convalescent and rest, drug and alcoholic, epileptic, mentally deficient, mental, nervous and mental, and tuberculosis, unless the facility is a critical access hospital (as that term is defined in section 1861(mm)(1)of the Social Security Act (42 U.S.C. 1395x(mm)(1)));

Section 242 has been used to insure loans to acute care hospitals that provide psychiatric services along with other services, but in these hospitals fewer than 50 percent of the patient days are psychiatric. The 50 percent rule does not apply for critical access hospitals; however, these are small, rural hospitals that principally provide primary hospital medical care.

Q.2. We've heard from constituents who were informed by HUD that Section 232 mortgage program would soon, if not already, stop insuring qualified medical facility loans. If this is the case, can you explain HUD's rationale for this decision?

A.2. This is not the case. However, the circumstances of each such facility (referred to as "Special Use Facility" in HUD Handbook 4600.1) vary greatly by geographic location, state licensing requirements, available third-party reimbursement, level of acute care provided, and many other factors. Depending on these factors, a facility project may or may not be covered under Section 232. Also, in order to be eligible for mortgage insurance under Section 232, the proposed facility must meet the statutory definition found in Section 232 (b) of the National Housing Act.

If a facility is determined to be eligible, HUD will process an application to the best of its ability. However, current capital market realities related to the access to capital, combined with improvements HUD has made in processing Section 232 applications, have resulted in very high industry demand for Section 232 mortgage insurance. Unique applications, such as those for a psychiatric or other Special Use Facility, necessarily require significantly more underwriting evaluation and review than do typical applications for nursing homes or assisted living facilities. Under these circumstances, the FHA has alerted lenders that the staff available for the Section 232 program may not be able to provide processing of applications for Special Use Facilities as timely as for other Section 232 applications.

Q.3.a. We certainly believe that there are still significant challenges in the real estate market, and until confidence in this market returns, buyers will be sidelined and our economy will continue to experience stress. Contributing to the uneasiness some buyers feel about conditions in the market are certain HUD positions that may have exacerbated the uncertainty currently existing in the housing market. One example has been HUD's position regarding home service contracts, treating them as a settlement service under RESPA.

What rationale does the Department have for classifying these contracts as a settlement service?

A.3.a. Home service contracts, more familiar to the public as homeowner warranties, have been expressly and clearly included in the definition of "settlement service" in HUD's RESPA regulations since 1992. Homeowner warranty services are listed in the same paragraph that includes the provision of services involving hazard, flood, and other casualty insurance. 24 C.F.R. § 3500.2(11). RESPA establishes requirements applicable to such services that are provided in connection with a prospective or actual settlement. Inclusion of homeowner warranties (or home service contracts) as "settlement services" means that the disclosure, anti-kickback, and anti-referral fee requirements in RESPA protect consumers' interests in the procurement of these services in connection with a covered real estate transaction.

Q.3.b. Why did HUD question the propriety of selling these contracts in residential real estate transactions? Does HUD believe they afford consumers protection against unexpected home repairs?

A.3.b. HUD, in its implementation of RESPA, does not judge the utility of a particular service or product that a consumer may wish to purchase, nor would it be appropriate to do so here. Rather, HUD and RESPA are concerned with protecting consumers from unnecessarily high settlement charges, primarily through the use of appropriate disclosures that are mandated by RESPA and by prohibitions on kickbacks, referral fees, and unearned fees for settlement services.

In the context of homeowner warranties, HUD has previously addressed the question about whether real estate agents may be paid a fee for placing a home warranty contract with a homebuyer. In response to such inquiries, HUD has explained that its regulations do not prohibit a person from receiving more than one fee in a RESPA-covered real estate transaction. However, where a person is receiving an additional fee and is in a position to refer settlement service business (as is a real estate agent), the additional payment must be for services that are actual, necessary, and distinct from the primary services provided by that person. 24 C.F.R. § 3500.14(g)(3). In addition, the additional fee must not be for nominal services. 24 C.F.R. § 3500.14(c). As long as these requirements are met, the additional fee is permitted. If the additional fee is, in effect, for the referral of the homeowner warranty business, however, both the giving and the accepting of that payment would be violations of RESPA and HUD's regulations.

Q.3.c. Does HUD believe that homes services contracts, unrelated to the lawful consummation of a residential real estate transaction, should be exempt from RESPA, or should Mr. Ceja's letter be rescinded?

A.3.c. As explained, HUD applies the requirements of RESPA and its implementing regulations to homeowner warranty contracts in the same manner that HUD applies those requirements to services involving hazard, flood, and other casualty insurance, as well as services involving other types of property-related insurance, home inspections, pest inspections, and other transaction-related activities. HUD believes that its application of those requirements in connection with a prospective or actual settlement is consistent with the purposes and requirements of RESPA.

Q.4. In urban centers across the country, there are obsolete corridors—particularly commercial ones—where the population has moved along, but we still have infrastructure in place and not being utilized. We see this in places across my own state of Tennessee where large retail centers or strip mall type areas stand abandoned.

How do we find ways to create appropriate incentives for private sector development in these types of areas that help overcome the costs associated with EPA or ADA regulations that often point builders in a different direction?

A.4. Many communities around the county confront the challenge that Tennessee faces of redeveloping older, commercial centers as a result of demographic and economic shifts that have made once-vibrant and lively retail centers no longer viable. Tax incentives and housing trust funds can promote redevelopment or infill development for affordable housing. Many of these cities have used Tax Increment Finance (TIF) districts or Business Improvement Districts (BIDs) which allow businesses to capture the "added value" of the improvement, or to set special taxes or fees and use the resulting revenue to provide special services. Special Improvement Districts (SIDs) are a variation on the theme.

HUD's Regulatory Barriers Clearinghouse identifies examples of innovative strategies that cities and counties have adopted to revitalize these older communities. The city of Akron has a program where it sells vacant lots within the city to developers to construct new houses or to homeowners to increase the size of their lot. Some communities in the state of Michigan are encouraging construction of small live-work units to revitalize downtown areas and increase housing affordability. An Urban Lank Bank Demonstration Program in Dallas, Texas, will promote infill housing development throughout the city. Baltimore's Maryland's Project 5000 promotes rehabilitation and redevelopment by obtaining abandoned housing.

Our FY 10 budget request includes increased funding for the Community Development Block Grant program, the HOME program, as well as funding for a Choice Neighborhoods Initiative that could support revitalization of these older and underutilized urban areas. We are strongly committed to new approaches to redeveloping these sites, that result in walkable, compact, mixed-use communities, where possible with links to transit and other transportation choices. Our partnership with the Department of Transportation will enable us to coordinate the use of transportation and housing funds to support these kinds of projects.

Q.5. In the city of Memphis, an estimated 10 percent of the residential, buildable lots are vacant and the difficulties in land consolidation and the environmental clean-up often required is prohibitive for new builds. On the residential side of things, do you have any suggestions as to what are the most appropriate incentives to encourage development and utilization? Should there be any distinction between residential areas and commercial areas in your view?

A.5. As noted in our response to Question #4, like Memphis, many cities are looking at ways to overcome the barriers to infill development, both commercial and residential, by utilizing financing tools, such as Tax Increment Financing or Business Improvement Districts. However, the time and cost of acquiring vacant lots, and the associated clean up costs, present significant challenges. Property tax, demolition or other liens on these properties, as well as uncertain and in some cases unknown title of the properties, often make it difficult to assemble these properties in sufficient scale to have the needed benefits.

In our view, what is needed to overcome these barriers are strong local tax incentives for preservation or redevelopment of existing properties, streamlined permitting and building inspection (linked where possible to transit zones and green building measures), and additional resources for brownfields cleanup and remediation. In New York, for example, the J–51 tax abatement on property taxes, properly use, has been a critical ingredient for redevelopment.

Q.6. Do you believe that coordination between land use and transportation infrastructure use needs to be mandated when planning occurs? Far too often such planning happens in a vacuum. How can we encourage reinvestment in aging infrastructure instead of building new?

A.6. HUD is not proposing to mandate this type of coordination, but to encourage and incentivize it. Preference for funding-assistance applications will be given to those that demonstrate capacity for long-term collaboration between housing, transportation, and planning agencies.

The goals adopted by the three-agency partnership include supporting existing communities through planning and technical assistance grants. The partnership is fully devoted to such strategies as mixed-use development and land recycling to increase community revitalization, improve the efficiency of public works investments, and safeguard rural landscapes.

Q.7. Do you believe that under the Uniform Relocation Act the rules and regulations have made the replacement of older multifamily units prohibitive, even with multiple incentives included? Do you believe that such regulations promote an acceptance of very substandard housing in certain urban areas?

A.7. Despite the additional requirements placed on federally funded projects in order to comply with the Urban Relocation Act (URA), these projects continue to produce decent, safe, and sanitary units of affordable housing. In 2008, CDBG funds were used to rehabilitate 21,418 rental units, and HOME program funds were used to complete 23,170 rental units.

Without the URA protections, a low-income family renting an apartment from month to month would most likely get nothing except an eviction notice. In enacting the URA, Congress recognized that the lack of adequate and affordable rental housing for displaced lower income individuals and families "presents the most difficult of all relocation problems." H.R. Rep. 91–1656, at 12 (1970). These are the persons who would generally receive nothing from an eminent domain taking.

Recognizing the hardship that often follows when families are uprooted against their will, the URA was based on the premise that families forced to move due to federally assisted projects should not be left worse off economically than before the displacement, and should be able to relocate in a comparable dwelling, which is decent, safe, and sanitary.

At the same time, when faced with time constraints on implementing an acquisition, rehabilitation, or construction program tied to spending Federal funds in a short amount of time, applying full URA requirements may impede moving forward quickly because of the sensitive nature of working with people. It is time-intensive work which requires the recipient of the Federal funds to conduct personal interviews, provide notices, and find comparable housing. Some families may not want to be relocated and will resist efforts to help them. The elderly can be the most vulnerable and most difficult to move especially if they have a built-in community, which addresses their needs and may not exist in a new location. The possible shortage of appropriate decent, safe, and sanitary housing near a family's known resources and support systems can also present difficulties.

In addition, the costs for relocating families can add to the bottom line cost of a HUD-assisted project (approximately $22,000 per household based on 2007 FHWA data), plus higher administrative costs. Because relocation payments for low-income families take into account affordability, the lower the income of the household moved, the higher the relocation cost largely due to the replacement housing payment covering a period of 42 months. However, these relocation expenses are eligible project costs that can be paid with HUD grant funds. More importantly, the alternative would be for HUD-funded programs to eject families from affordable housing (no matter how dilapidated) and place them into a better, but unaffordable location (or force them onto the streets, thereby increasing instances of homelessness).

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

PREPARED STATEMENT OF MARTY SHURAVLOFF

CHAIRMAN, NATIONAL AMERICAN INDIAN HOUSING COUNCIL

APRIL 22, 2010

Introduction

Good afternoon Chairman Dodd, Ranking Member Shelby, and distinguished members of the Senate Committee on Banking, Housing, and Urban Development. My name is Marty Shuravloff and I am the Chairman of the National American Indian Housing Council (NAIHC), the only national tribal non-profit organization dedicated solely to advancing housing, physical infrastructure, and economic development in tribal communities in the United States. I am also an enrolled member of the Leisnoi Village, Kodiak Island, Alaska. I want to thank the Committee for the opportunity to submit written testimony expressing NAIHC's perspective on funding for Indian Housing Programs, particularly the Indian Housing Block Grant program, for the Committee's consideration as it reviews the fiscal year 2011 legislative requests from the U.S. Department of Housing and Urban Development (HUD).

Background on the National American Indian Housing Council (NAIHC)

The NAIHC was founded in 1974 and has, for 36 years, served its members by providing valuable training and technical assistance (T/TA) to all tribes and tribal housing entities; providing information to Congress regarding the issues and challenges that tribes face in terms of housing, infrastructure, and community and economic development; and working with key Federal agencies in an attempt to address such issues and meet such challenges. The membership of NAIHC is expansive, comprised of 271 members representing 463 [1] tribes and tribal housing organizations. The primary goal of NAIHC is to support Native housing entities in their efforts to provide safe, quality, affordable, culturally relevant housing to Native people.

Brief Summary of the Problems Regarding Housing in Indian Country

While the country has been experiencing an economic downturn in general, this trend is greatly magnified in Indian communities. The national unemployment rate has risen and has hopefully passed its peak at an alarming rate of nearly 10 percent;[2] however, that rate does not compare to the unemployment rates in Indian Country, which average 49 percent.[3] The highest unemployment rates are on the Plains reservations, where the **average** rate is 77 percent.[4] Because of the remote locations of many reservations, there is a lack of basic infrastructure and economic development opportunities are difficult to identify and pursue. As a result, the poverty rate in Indian Country is exceedingly high at 25.3 percent, nearly three times the national average.[5] These employment and economic development challenges exacerbate the housing situation in Indian country. Our first Americans face some of the worst housing and living conditions in the country and the availability of affordable, adequate, safe housing in Indian Country falls far below that of the general U.S. population.

- According to the 2000 U.S. Census, nearly 12 percent of Native American households lack plumbing compared to 1.2 percent of the general U.S. population.
- According to 2002 statistics, 90,000 Indian families were homeless or underhoused.
- On tribal lands, 28 percent of Indian households were found to be over-crowded or to lack adequate plumbing and kitchen facilities. The national average is 5.4 percent.

[1] There are approximately 561 federally recognized Indian tribes and Alaska Native villages in the United States, all of whom are eligible for membership in NAIHC. Other NAIHC members include state-recognized tribes that were deemed eligible for housing assistance under the 1937 Act and grandfathered in to the Native American Housing Assistance and Self-Determination Act.

[2] See *http://www.bls.gov/news.release/empsit.nr0.htm.*

[3] Bureau of Indian Affairs Labor Force Report (2005).

[4] Many of these reservations are in the state of South Dakota, which has one of the lowest unemployment rates in the nation. On some SD reservations, the unemployment rate exceeds 80 percent.

[5] U.S. Census Bureau, American Indian and Alaska Native Heritage Month: November 2008. See *http://www.census.gov.*

- When structures that lack heating and electrical equipment are included, roughly 40 percent of reservation housing is considered inadequate, compared to 5.9 percent of national households.
- Seventy percent of the existing housing stock in Indian Country is in need of upgrades and repairs, many of them extensive.
- Less than half of all reservation homes are connected to a sewer system.

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

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

The Native American Housing Assistance and Self-Determination Act

In 1996, Congress passed the Native American Housing Assistance and Self-Determination Act ("NAHASDA") to provide Federal statutory authority to address the above-mentioned housing disparities in Indian Country. NAHASDA is the cornerstone for providing housing assistance to low-income Native American families on Indian reservations, in Alaska Native villages, and on Native Hawaiian Home Lands. The Indian Housing Block Grant ("IHBG") is the funding component of NAHASDA. Since the passage of NAHASDA in 1996 and its funding and implementation in 1998, NAHASDA has been the single largest source of funding for Native housing. Administered by the Department of Housing and Urban Development ("HUD"), NAHASDA specifies which activities are eligible for funding.[6] Not only do IHBG funds support new housing development, acquisition, rehabilitation, and other housing services that are critical for tribal communities; they cover essential planning and operating expenses for tribal housing programs. Between 2006 and 2009, a significant portion of IHBG funds, approximately 24 percent, were used for planning, administration, housing management, and services.[7]

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

NAIHC would like to thank Congress for its increased investment in Indian housing in FY2010. AARA provided over $500 million for the IHBG program. This additional investment in Indian Country supports hundreds of jobs, has allowed some tribes to start on new construction projects, and has assisted other tribes in completing essential infrastructure for housing projects that they could not have otherwise afforded with their IHBG allocations. Tribes have complied with the mandate to obligate the funds in an expedient manner, thus helping stimulate tribal and the national economies.

In addition to ARRA funding, Congress appropriated $700 million for the IHBG in FY2010, the first significant increase for the program since its inception. This positive step reversed a decade of stagnate funding levels that neither kept pace with inflation nor addressed the acute housing needs in Native communities.

The President's FY2011 Budget Request for the Indian Housing Block Grant

On February 1, 2010, President Obama submitted to Congress a $3.8 trillion budget request. It proposes $580 million for the IHBG, which is a decrease of $120 million (–17 percent) from the FY2010 funding level.[8] At the same time, HUD's

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[6] Eligible activities include but are not limited to down-payment assistance, property acquisition, new construction, safety programs, planning and administration, and housing rehabilitation.

[7] See Appendix A, attached hereto.

[8] Part of the rationale for reducing IHBG funding was what may appear to be a delay in use of available tribal housing funds. However, such apparent delay is an aberration. Since NAHASDA was initially funded in FY1998 through FY2009, tribal expenditure rates are 88 percent. Based on a HUD ARRA spending report dated March 20, 2010, tribes are spending HUD and ARRA funds at a rate that at least equals and, in some cases, exceeds the national average.

overall budget was reduced by only 5 percent. Should Congress accept the President's budget proposal, it would be the lowest, single-year funding level for the NAHASDA since it was enacted in 1996. To put this in proper perspective, funding appropriated by Congress in FY1998, 12 years ago, was $20 million more than the President's Budget Request for FY2011.

While the NAIHC and its members are aware of and appreciate the large investments made in Indian housing, we are disappointed that the current request fails to continue the positive budget trajectory of recent years. Therefore, the NAIHC strongly urges Congress to not only appropriate funds above the President's Budget Request, but to fund the IHBG at $875 million due to the increasing costs for housing development, energy efficiency initiatives, and other inflationary factors. Since the President's Budget Request was released, many of our members have expressed their deep concerns. They believe, and we agree, that this budget impacts not only housing, but also the very hope for self-sustaining economies in Indian Country.

Reduced funding would result in the loss of jobs for our people, reversing the positive impact of ARRA; the deterioration of existing housing units; and the curtailment of many housing projects that are currently under development. Without sufficient funding and proper training and technical assistance, progress regarding tribal housing will not only cease; years of hard work will be reversed, as tribes will lack the funds to maintain and operate existing housing units, much less provide new ones. Many tribes are at risk of losing between a quarter and a third of their housing budgets if the President's Proposed Budget were to take effect, the impact of which would be devastating.[9]

Other Indian Housing and Related Programs

The Title VI and Section 184 Indian Housing Loan Guarantee Programs

The President's proposed budget request includes $2 million for the Title VI Loan Guarantee program and $8.25 million for the Section 184 program. The Title VI program is important because it provides a 95 percent guarantee on loans made by private lenders, which is an incentive for lenders to get involved in the development of much-needed housing in tribal areas. Section 184 is specifically geared toward facilitating home loans in Indian Country. We request that these programs be funded at $2 and $9 million, respectively.

Indian Community Development Block Grant (ICDBG)

While appreciated, proposed funds of $65 million for the ICDBG are insufficient to meet the current needs for essential infrastructure, including sewer and running water, in Indian Country. We request that this program be funded at $100 million.

Native Hawaiian Housing

Low-income Native Hawaiian families continue to face tremendous challenges, similar to those that tribal members face in the rest of the United States. The President's funding request of $10 million for the Native Hawaiian Housing Block Grant is appreciated, but the budget includes no funding for the Section 184A program in Hawaii. While it has taken some time to get this program started-because lenders are not familiar with the Section 184A program-providing no funding would be a step backward for Native Hawaiian families working toward homeownership. We urge Congress to consider this before agreeing to the Administration's proposal to eliminate funding for the program.

Training and Technical Assistance (T/TA) and the Proposed Transformation Initiative

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

The budget request proposes an agency-wide Transformation Initiative Fund ("TIF") with up to 1 percent of HUD's total budget, which would draw funds away from essential housing programs, including $5.8 million from the IHBG account, "to

[9] See Appendix B, attached hereto.

continue the on-going comprehensive study of housing needs in Indian Country and native communities in Alaska and Hawaii." While the NAIHC membership believes the TI may have merit, we do not believe that transferring nearly $6 million from the IHBG account to conduct a study on housing needs is a wise or even defensible use of Federal taxpayer funds. More importantly, the $6 million affects funding that has historically been appropriated to NAIHC for T/TA. Through resolutions, the NAIHC membership has repeatedly taken the position that a portion of the IHBG allocation should be provided to NAIHC for T/TA, which is a reflection of their confidence in NAIHC and the continuing demand for the essential capacity-building services that we provide. We request that funding in the amount of $4.8 million for T/TA be included in the FY2011 budget.

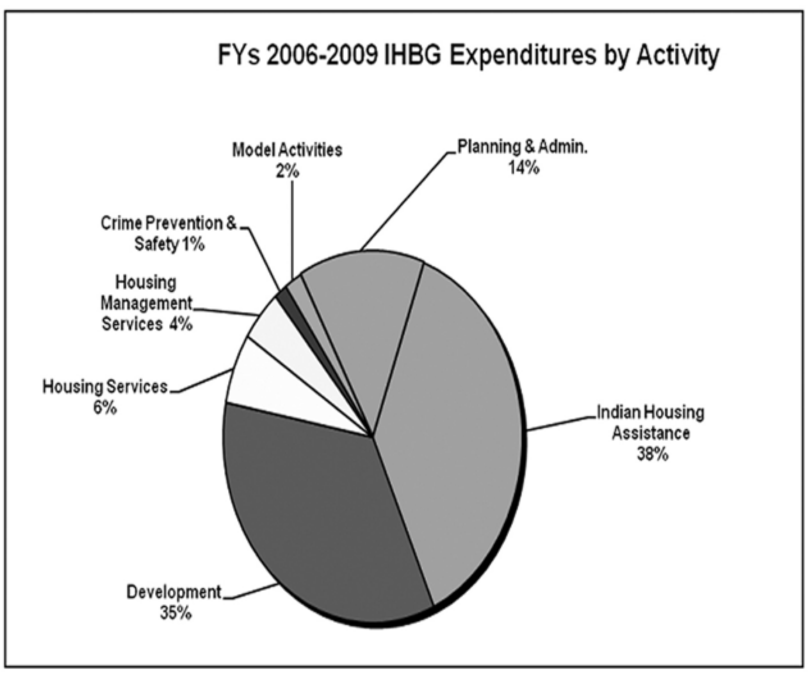
Conclusion

NAHASDA was enacted to provide Indian tribes and Native American communities with new and creative tools necessary to develop culturally relevant, safe, decent, affordable housing. NAIHC has very specific concerns, enumerated above, with the President's proposed Indian housing funding levels and hopes that Congress, with the leadership of this important Committee, will not allow the NAHASDA program to take an enormous step backwards and devastate the progress that has been made in the past 12 years to improve housing conditions in Indian Country. Based on the facts outlined above and the potentially devastating impact a dramatic cut to Indian housing funds will unquestionably have on Indian country, NAIHC requests funding in the amounts outlined above in order to meet the immense needs in Indian country.

Thank you, Chairman Dodd, Ranking Member Shelby, and the members of this Committee for allowing us to express our Fiscal Year 2011 budgetary priorities and concerns regarding Native American housing needs. Your continued support of Native American communities is truly appreciated, and the NAIHC is eager to work with you and your professional staff on any and all issues pertaining to Indian housing programs and living conditions for America's indigenous people.

Appendix A: How NAHASDA Funds Are Being Spent

The following chart shows how tribes spent NAHASDA funds from 2006–2009.[10]



[10] See *http://hud.gov/offices/cfo/reports/2011/cjs/nahb-grants2011.pdf.*

Appendix B: Specific Examples of Potential Housing Funds Losses:[11]

Tribe and State	Grant Simulation Using President's Proposed FY2011 Budget	FY 2010 Housing Funds (Before Repayments and Grant Adjustments)	Difference in Grant Amount
Holy Cross Village, Alaska	$121,563	$181,111	–$59,548
Organized Village of Kake, Alaska	$227,631	$339,475	–$111,844
Ft. McDowell Reservation, Arizona	$70,326	$104,448	–$34,122
Navajo Nation, Arizona, New Mexico, and Utah	$73,402,755	$93,816,159	–$20,413,404
Western Band of the Cherokee Nation, Oklahoma	$25,843,314	$31,684,864	–$5,841,550

Not all tribes stand to lose the same percentage of funding under the President's proposed budget because of the way the funding formula works for the IHBG. For example, the Lumbee tribe of North Carolina stands to lose roughly 45 percent of their total housing budget because 92 percent of it is needs-based.[12]

[11] These numbers are based on a simulation using the President's proposed funding figure of $572 million compared to the FY2010 budget without any adjustments. The numbers are a rough estimate and subject to change based on a variety of factors, but they do offer a good summary of the potential impact of the President's FY2011 budget, if passed.

[12] Per Lumbee tribal member and attorney Edward K. Brooks, Patterson Dilthey, Attorneys at Law, Raleigh, NC, 3/22/2010.

NAHRO
building communities together

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VIA ELECTRONIC MAIL

April 15, 2010

The Honorable Christopher Dodd
Chairman
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, D.C. 20510

The Honorable Richard Shelby
Ranking Member
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Chairman Dodd and Ranking Member Shelby:

On behalf of the more than 23,000 members of the National Association of Housing and Redevelopment Officials (NAHRO), thank you for holding today's very important hearing on the FY 2011 HUD budget. We look forward to working with you and members of the committee in the months ahead to continue to ensure necessary and responsible funding to meet the housing and community development needs of our nation. We recognize that in an otherwise difficult budget environment that you, along with your colleagues on the Appropriations Committee, have a difficult task before you Mindful of these concerns, we ask you and members of this Committee to work towards a budget that allows for the full funding of federal housing and community development programs, including public housing, Section 8 rental assistance, Community Development Block Grants (CDBG), the Home Investment Partnerships (HOME) program, and programs to prevent and address homelessness. We have attached NAHRO's funding recommendations for FY 2011 for your review.

The passage of the Housing and Economic Recovery Act of 2008 (HERA) and the American Recovery and Reinvestment Act of 2009 (ARRA) demonstrated the important role that federal housing and community development programs play in bringing about economic recovery. These landmark pieces of legislation, which provided billions of dollars in emergency funding for, among other programs, the Public Housing Capital Fund and the CDBG program while at the same time creating the Neighborhood Stabilization Program and the Housing Trust Fund, have allowed public housing agencies (PHAs), redevelopment authorities, and community development agencies to spur job creation and stimulate local commerce by tackling long-deferred housing and infrastructure needs.

While the resources provided through HERA and ARRA have helped to stabilize communities nationwide, NAHRO members understand that a sustained investment in affordable housing and community development programs is vital to the short-term recovery effort, essential to the long-term stability of our neighborhoods, and, most importantly, critical to the health and well being of the families who call those neighborhoods home. NAHRO's FY 2011 funding recommendations, if adopted, will help to ensure that federal housing and community development programs and policies continue to drive economic growth while also meeting the needs of families suffering the effects of the recession.

HUD's core programs, if fully funded, provide the tools that housing and community development professionals need to create jobs, grow local economies, and meet the needs of vulnerable populations by expanding the nation's affordable housing inventory, pursuing targeted economic development activities, preserving the long-term viability of public housing by addressing deferred modernization needs, and delivering needed services to low-income families, the elderly, the disabled, and those experiencing homelessness, including veterans. NAHRO therefore believes that the FY 2011 HUD Budget should allow for a level of federal investment to preserve the nation's existing public housing inventory, strengthen the Section 8 rental assistance programs, maintain the Department of Housing and Urban Development as the leading federal partner for community and economic development, and enable our members to dramatically expand affordable housing opportunities for American families. Our more specific interests and concerns are as follows:

Public Housing

NAHRO believes that the FY 2011 HUD Budget must be capable of advancing the process, initiated by ARRA and continued through the FY 2010 Consolidated Appropriations Act, of restoring a responsible level of federal investment in public housing. America's public housing inventory is a $90 billion public asset providing affordable housing to 1.1 million families in large and small communities across the country. Approximately 50 percent of assisted families are headed by the elderly or persons with disabilities.

Over time, underfunding has put public housing assets in our communities at risk. Despite their value to our communities, these irreplaceable assets, which provide decent, safe and affordable housing to millions of families, until recently have not received funding that more closely aligns with amounts necessary to operate. Also, until recently, they have not received funding necessary to address the significant backlog in deferred modernization that has accrued in recent years. The welcome provision of $4 billion in public housing capital funding through the American Recovery and Reinvestment Act notwithstanding, a capital needs backlog estimated at upwards of $30 billion remains.

In addition, due to the underfunding noted above, housing agencies until recently have struggled to cover basic operating costs including maintenance, utilities, and eligibility verifications. Our members are extremely grateful that this pattern was effectively reversed in FY 2010 when Congress provided $4.775 billion for the Public Housing Operating Fund. Yet they are still concerned that a difference remains between what has been proposed by the administration for FY 2011 and our own best estimates of the need with respect to public housing operations.

NAHRO is hopeful that ARRA's investment in public housing and the recent increase in operating funding together represent a down payment toward a renewed commitment to provide PHAs with the resources they require. Adequate funding will incentivize the adoption of energy efficiency and green building practices by local agencies while empowering them to address safety and security needs and provide valuable services to those seeking economic self-sufficiency and independent living.

We also believe that the nation's investment in public housing must be sustained in FY 2011 through the adoption of a HUD budget that allows for full funding of public housing accounts. For FY 2011, NAHRO believes that $5.084 billion for the Public Housing Operating Fund is required. Additionally, to build upon the momentum created by ARRA to address capital needs, NAHRO is recommending $5.0 billion for the Public Housing Capital Fund for FY 2011. Finally, to enable the revitalization of the most severely distressed communities, NAHRO recommends that the Congress provide the proven HOPE VI program with $800 million for FY 2011. NAHRO strongly believes that funding for the successful HOPE VI program should continue as HUD moves forward with implementing the Choice Neighborhoods Initiative demonstration funded for FY 2010.

Given the large backlog of unmet capital needs, NAHRO has suggested that PHAs be afforded a variety of financial options for preserving their public housing and creating a sustainable operating environment. For this reason, NAHRO has developed a legislative proposal that would allow PHAs to voluntarily convert public housing projects to Section 8 project-based rental assistance. Please note that this proposal is distinct from the Administration's proposed Transforming Rental Assistance Initiative. We would be happy to forward our comments on the most recent draft of the Administration's proposal under separate cover and would welcome the opportunity to review those comments with you at your convenience. With regard to our own proposal, the option to convert public housing projects to Section 8 project-based rental assistance would we believe provide those PHAs who choose to do so with a means to recapitalize their public housing assets and preserve them for the future. NAHRO seeks $200 million in incremental funding for FY 2011 to support the voluntary conversion of approximately 100,000 public housing units to Section 8 project-based rental assistance. These funds would be used in the initial year following the conversion to supplement public housing funds (both operating and capital) previously allocable to the converted project. We welcome the opportunity to speak in greater detail with staff and members of the Committee about our proposal

Section 8 Tenant- and Project-Based Programs

NAHRO is also committed to strengthening the Section 8 rental assistance programs. The rapid decline in voucher-assisted household incomes has led to a widening gap between PHAs' budget utilization rates and their voucher lease-up rates. Through a combination of adequate and rationally distributed funding for Housing Assistance Payments and administrative fees, as well as the adoption of legislative and regulatory reforms, the Housing Choice Voucher program can be better positioned to provide affordable, decent housing opportunities for low-income households. NAHRO estimates that at least $17.165 billion will be required for FY 2011 to renew Housing Choice Vouchers for families under lease. However, this funding level does not reflect estimates of increased subsidy needs resulting from loss of hours and loss of jobs by extremely low-income, very low-income, and low-income families with earnings. The declining incomes of voucher-assisted households we believe will require greater funding levels in order for PHAs to assist the same number of low-income households.

NAHRO also believes that the FY 2011 HUD budget approved by Congress should be sufficient to provide at least $1.989 billion to fund the efficient and responsible administration of the tenant-based assistance programs, including Housing Choice Vouchers and Tenant-Protection Vouchers, as well to cover the cost of other special fees associated with voucher program administration.

Further, we believe that funding for the Family Self-Sufficiency (FSS) program should be provided at $72 million for FY 2011 to help restore FSS Coordinators to all PHAs that have run successful programs in the past. HUD recently changed the FSS program from a competitive grant program to a program that distributes appropriated funds based upon a formula. Unfortunately, HUD's change to the program's funding methodology was not accompanied by a request for increased appropriations. As a result, many PHAs that had one or more FSS Coordinators will lose them this year.

Finally, in order to preserve private sector participation in the provision of affordable housing nationwide, NAHRO asks the Congress adopt a HUD FY 2011 budget that includes sufficient resources to renew all Section 8 project-based rental assistance contracts and fully fund the Project-Based Contract Administrators program.

Community Planning and Development

The Administration's FY 2011 budget offers a mixed bag for HUD's key Community Planning and Development (CPD) programs. NAHRO strongly believes that full funding for CPD programs is essential to the success of state and local agencies' efforts to build stronger, more economically viable communities and expand affordable housing opportunities for low- and moderate-income families.

The President's budget requests $3.99 billion for the CDBG program for FY 2011, the same level of funding provided for FY 2010. Although the FY 2010 funding level represented a welcome increase over the FY 2009 appropriation, CDBG formula funding continues to lag well behind the higher funding levels provided for the program as recently as FY 2004. NAHRO recommends $4.5 billion for CDBG formula grants for FY 2011. These funds, in combination with the $1 billion in special CDBG funding received through ARRA, will provide much-needed support for ongoing state and local efforts to create jobs and strengthen infrastructure, and will improve the quality of life for millions of low- and moderate-income Americans.

As communities work to rebuild local economies, NAHRO recommends continued funding for all of HUD's economic development programs, including the Section 108 loan guarantee program, the Brownfields Economic Development Initiative, and the Rural Housing and Economic Development Initiative. By fully funding CDBG and preserving these key economic development programs, Congress can reaffirm HUD's role as the leading federal partner supporting state and local community revitalization initiatives.

The HOME program is the largest federal block grant program to state and local governments designed exclusively to create affordable housing for low-income households. While the FY 2009 omnibus bill increased HOME formula funding by 11 percent over the FY 2008 level, the \$1.809 billion appropriated for both FY 2009 and FY 2010 still falls short of the FY 2004 enacted level, even before adjusting for inflation. NAHRO strongly opposes the proposed cut to HOME formula funding for FY 2011. We support efforts to secure \$2 billion in funding for the HOME formula program for FY 2011. NAHRO also requests that Congress accommodate the President's proposal to provide \$1 billion for the recently enacted Housing Trust Fund. These recommendations reflect NAHRO's ongoing commitment to pursuing federal policies that will support a dramatic expansion of affordable housing opportunities.

In conclusion, Congress, with significant support and assistance from this Committee, enacted major reforms of HUD's McKinney-Vento homeless assistance programs in 2009. NAHRO strongly supported many of these important reforms, including new flexibility to prevent at-risk families from falling into homelessness. The impact of the current economic crisis has illuminated the importance of maintaining adequate program funding in this area. Therefore NAHRO urges Congress to accommodate \$2.2 billion for HUD's homeless assistance programs for FY 2011. We also recommend that the Housing Opportunities for Persons with Aids program be funded at \$410 million for FY 2011.

Again, thank you for holding today's hearing and for the chance to have our recommendations on the FY 2011 HUD budget included as part of the record. Please know that your attention to America's housing and community development needs is greatly appreciated and we stand ready to assist this Committee going forward as you deem appropriate.

Sincerely,

Saul N. Ramirez, Jr.
Chief Executive Officer

Attachment

NAHRO FY 2011 Funding Recommendations

Program ($ in Millions)	FY 2010 Enacted	FY 2011 Proposed[a]	NAHRO[b]
Public Housing Operating Fund	$4,775	$4,829	$5,084[c]
Elderly and Disabled Service Coordinators	[$16]	[$16]	$50
Public Housing Capital Fund	$2,500	$2,044	$5,000
Resident Opportunity and Supportive Services	[$50]	$0	$55
Emergency Capital Needs	[$20]	[$20]	$25
Conversion of Public Housing to Sec. 8 Project-Based	-	-	$200[d]
HOPE VI	$200	$0	$800
Choice Neighborhoods Initiative	[$65]	$250	
Safety and Security	$0	$0	$310
Tenant-Based Rental Assistance (Sec 8 Vouchers), Total[e]	$18,184	$19,551	
Housing Assistance Payments	[$16,339]	[$17,115][f]	$17,165[g]
Ongoing Administrative Fees	[$1,525]	[$1,741]	At least $1,741
Tenant Protection Vouchers	[$120]	[$125]	Fully Fund
Tenant Protection/Special Purpose Admin. Fees	[$50]	[$50]	$50
Special Fees (audit reimbursement, hard to house)	$0	$0	$198
Family Self-Sufficiency (FSS) Coordinators	[$60]	[$60]	$72[h]
Section 8 Project-Based Rental Assistance	$8,551	$9,382	Fully Fund
Community Development Fund	$4,450	$4,382	
Community Development Block Grants (formula)	[$3,990]	[$3,990]	$4,500
Rural Housing/Economic Development Program[i]	[$25]	$0	$25
Section 108 Loan Guarantee Program	$6	$0[j]	$12
Brownfields Economic Development Initiative	$17.5	$0	$25
Home Investment Partnerships (HOME) Program	$1,825	$1,650	
HOME Formula Grants	[$1,825]	[$1,650]	$2,000
Housing Opportunities for Persons with AIDS (HOPWA)	$335	$340	$410
McKinney-Vento Homeless Assistance Programs	$1,865	$2,055	$2,200
Affordable Housing Production[k]	-	$1,000	$1,000

[a] As proposed in the Obama administration's FY 2011 budget. Unless otherwise noted, figures do not reflect requested 1% set-asides for the Transformation Initiative.

[b] NAHRO requests are for stand-alone programs only. Blank indicates no position.

[c] Recommended funding is calculated using the approach agreed upon by HUD and stakeholders in the 2004 negotiated rulemaking which includes the costs of employee benefits and utilizes the CPI as a more accurate measurement of inflation. Utilities expense level (UEL) uses HUD's CY 2010 UEL inflation factor methodology. An estimated 204,000 Eligible Unit Months are included for 2011 to account for approximately 24,000 units that may be federalized over the next few years using funds from the American Recovery and Reinvestment Act of 2009.

[d] Estimated incremental amount of Section 8 project-based funding required to support the voluntary conversion of approximately 100,000 public housing units to Section 8 project-based rental assistance. Estimate represents the difference between the average costs of a voucher and a public housing unit, accounting for operating/capital funding. Estimate assumes initial-year reprogramming of operating/capital funding as units are converted.

[e] Figures are displayed on a program-year basis, consistent with appropriations bill language.

[f] Figure reflects a transfer of $195.5 million to the Transformation Initiative as proposed by the administration.

[g] Based on FY 2009 Voucher Management System leasing and cost data, supplemented by information about additional voucher awards. Figures increased for inflation by estimates of Annual Adjustment Factors based on 2010 FMR documentation and 2008 Consumer Expenditure Survey and 2008/2009 Consumer Price Index data. Recommendations do not reflect estimates of increased need for subsidy resulting from loss of hours and loss of jobs by ELI, VLI and LI families with earnings. Declining incomes of voucher-assisted households would require greater funding levels in order for PHAs to assist the same number of low-income households.

[h] NAHRO believes PHAs needing assistance to operate the FSS program should receive funding through a formula-driven program.

[i] The Rural Housing and Economic Development (RHED) program was renamed the Rural Innovation Fund and funded as a set-aside under the Community Development Fund for FY 2010. NAHRO supports the restoration of stand-alone funding for the program.

[j] The administration proposes collecting a fee from Section 108 borrowers to cover the program's credit subsidy costs. NAHRO favors a direct appropriation to subsidize up to $500 million in loan guarantees for FY 2011.

[k] The administration proposes $1 billion for the Housing Trust Fund for FY 2011, with resources to be provided through an as-yet unidentified legislative mechanism outside of the appropriations process. NAHRO encourages the federal government to identify at least $1 billion in new resources for FY 2011 for distribution through the Housing Trust Fund. This funding should be derived from sources other than appropriations to the extent possible.