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HOUSING AND COMMUNITY DEVELOPMENT NEEDS

HEARING

BEFORE THE

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

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

ON

THE EXAMINATION OF HOUSING AND COMMUNITY DEVELOPMENT NEEDS, FOCUSING ON THE FISCAL YEAR 2003 HOUSING AND URBAN DEVELOPMENT BUDGET, PROVIDING A MORTGAGE CUT RATE FOR NATIONAL GUARDSMEN AND RESERVISTS CALLED TO ACTIVE DUTY, RELIEF ON FHA MORTGAGES FOR THE VICTIMS FAMILIES OF THE SEPTEMBER 11, 2001 ATTACKS, AND FOR NEW YORK CITYS' ECONOMIC RECOVERY

NOVEMBER 29 AND DECEMBER 13, 2001

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HOUSING AND COMMUNITY DEVELOPMENT NEEDS

THURSDAY, NOVEMBER 29, 2001

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

The Committee met at 10:05 a.m., in room SD–538 of the Dirksen Senate Office Building, Senator Paul S. Sarbanes (Chairman of the Committee) presiding.

OPENING STATEMENT OF CHAIRMAN PAUL S. SARBANES

Chairman SARBANES. Let me call this hearing to order.

There is a vote scheduled at 10:30 a.m. and we will do as much business as we can before we have to leave to go and vote. I am going to defer my opening statement because Senator Murray is here to introduce one of the people who will be on the panel, and I know she has some other pressing engagements. Senator Murray, why don't you go ahead. We will be very happy to hear from you.

Senator MURRAY. Well, thank you very much, Mr. Chairman and Members of the Committee.

Chairman SARBANES. I might add, a former, very distinguished Member of this Committee.

STATEMENT OF PATTY MURRAY
A U.S. SENATOR FROM THE STATE OF WASHINGTON

Senator MURRAY. Well, thank you, Mr. Chairman, and Members of the Committee. I really do appreciate the opportunity to take just a minute this morning to introduce a very good and long-time friend of mine, Kurt Creager.

Kurt is the Chief Executive Officer of the Vancouver Housing Authority in my home State of Washington. That is the housing authority that serves all of Clark County, Washington, which is one of the fastest-growing communities in the entire country.

Kurt has always been an effective and articulate spokesman for affordable housing and community development in Washington State, and I am pleased that he is now President of the National Association of Housing and Redevelopment Officials, which allows him to bring his passion for these issues to the national level.

Mr. Chairman, I know that you have shared many of my concerns about the first HUD budget proposed by the Bush Administration and I applaud your decision to hold this hearing today on the fiscal year 2003 HUD budget.

Programs like the Community Development Block Grant Program and the Public Housing Capital and Operating Funds are really critical to serving low-income people and communities from coast to coast. We need to make sure that the Administration understands their importance.

In my home State of Washington, we are experiencing tremendous layoffs and increased unemployment, and we know that at a time when the economy is slowing down, we should not be reducing our investments in affordable housing and communities.

Mr. Chairman, I thank you for holding this hearing. On behalf of the people of Washington State, I want to thank Mr. Creager for his leadership and his testimony and for coming all the way across the country today.

Thank you very much, Mr. Chairman.

Chairman SARBANES. Thank you very much, Senator Murray. We appreciate you being here and introducing Mr. Creager.

I want to thank all of the witnesses for joining us today to help explore and examine the housing and community development needs of the American people and the communities in which they live. Earlier this week, the President signed the HUD appropriations bill into law for the fiscal year in which we now find ourselves. Despite the narrow limits within which the Appropriations Committee was required to work, I do think they substantially improved the Administration's budget request, and I am very pleased that that is the case.

I very much hope that the Administration will take into account the extent to which poor and even moderate-income working families are facing an affordable housing crisis as they prepare the HUD budget for fiscal 2003.

By HUD's own data, 5 million very low-income American families pay over half their income in rent. A study by the National Housing Conference that looked at a broader sample found that nearly 14 million families, including working families earning more than the median income, face critical housing needs.

In fact, while the number of worst-case needs among poor families actually seemed to stabilize a bit, the number of working families carrying the severe burden has risen quite sharply.

A recent low-income housing coalition study shows that two full-time, minimum wage earners in a family is not sufficient in 33 States to rent a modest apartment which would require paying 30 percent of a family's income, a level widely assumed to be a measure of affordability.

In other words, you have two full-time workers at the minimum wage, and in two-thirds of our States, that is not sufficient income to rent a modest apartment at 30 percent of the family's income.

In the past decade, the number of units available to extremely low-income renters has dropped by about 15 percent, a loss of almost a million units. And nationally, apartment vacancy rates have declined by 1.7 percentage points, making it more difficult for all renters to find an affordable place to live.

We should take a moment to think of what it means to pay so much of one's income for housing alone. It means insecurity and uncertainty. It may well mean rootlessness. These families live one unexpected medical bill, one car repair, one bout of unemployment

away from homelessness. And many end up moving from one apartment to another, move in with relatives or friends just to keep a roof over their house. And obviously, the impact on the children of these families is extremely marked.

I think it is important as we move ahead that both the Congress and the Administration should seek to expand aid to low-income families. Programs that help create a ladder of housing opportunity, such as FHA multifamily programs, need to be increased. For many the final rung on the ladder is homeownership assistance programs, and with some Federal assistance, many American families can take this final step toward the American Dream.

I want to commend the Bush Administration last year for proposing additional downpayment assistance for homeownership. But I regret that the proposal came only at the expense of other programs, which I think were also sorely needed. It was an additional commitment of resources.

Actually, the Appropriations Committee tried to straighten that out a little bit. I hope we do not face a similar situation in the budget that we will be receiving in the new year.

The panel of witnesses we have here today come with broad experience and expertise to discuss America's housing needs and how we should go about meeting them. I am very much looking forward to hearing from them.

Before we do that, I will turn to my colleagues for any statements they may have.

Senator Allard.

STATEMENT OF SENATOR WAYNE ALLARD

Senator ALLARD. Thank you, Mr. Chairman for holding this hearing today on housing and community development needs for the fiscal year 2003 HUD budget. HUD's budget has been increasing in recent years and that trend I expect will continue in 2002.

To merely focus on dollars seems to me to miss the point. The central question should be—what are the objectives of HUD? And are adequate resources provided to achieve those desired results?

I want to make a point to emphasize The Government Performance Results Act, which is legislation that we passed some time back in this Congress which directed agencies to begin to measure their performance through measurable results.

Many county commissioners, city council people, use this type of management tool in order to have accountability. Even businesses will have this accountability on how those dollars are spent and what the results are.

I would hope that this Committee, working with the Subcommittee on Housing, would focus on trying to develop some measurable results from HUD so that, as policymakers, we can be more responsible on how these programs are administered.

The success of HUD will be determined by how many people it helps to achieve self-sufficiency, not by how much money it spends. It is the responsibility of the Congress to hold Federal agencies accountable for specific results and to budget according to the success or failure in achieving those results.

For the last several years, HUD's budget has been increased significantly. But what is most striking is the amount of unobligated

money in the HUD pipeline which has already been appropriated by the Congress. At the end of last year, there was at least $12 billion of unobligated and unspent HUD money.

It should also be noted that over the last several years, we have significantly increased Federal resources for affordable housing. Both the low-income housing tax credit and private activity bond authority were increased at the end of 2000.

In addition, this year Congress increased the FHA multifamily loan limits. It is also important to note the private sector's primary role in providing affordable housing. Mortgage bankers, homebuilders, and realtors are all working harder to create more affordable housing. It is very encouraging that the Fannie Mae and Freddie Mac conforming loan limits will rise in January from $275,000 to $300,000. This will help get many more families into affordable housing and affordable home mortgages.

Before I close, I want to raise a concern with the Chairman if I might. HUD has not had an inspector general for nearly 6 months. The President has nominated Ken Donohue, and my understanding is that his paperwork has been received by the Committee. And I hope that we can hold a hearing and confirm Mr. Donohue before the session ends, Mr. Chairman.

Thank you.

Chairman SARBANES. His paperwork is complete. I discussed his situation yesterday with the Secretary. So it is not off the radar screen.

Senator ALLARD. Are you planning a hearing shortly?

Chairman SARBANES. Well, I want to have a further discussion with the Secretary.

Senator ALLARD. Okay.

Chairman SARBANES. Senator Reed.

COMMENTS OF SENATOR JACK REED

Senator REED. Mr. Chairman, thank you very much for scheduling this hearing. I have the great opportunity to serve as the Chairman for the Housing and Transportation Subcommittee, along with Senator Allard as the Ranking Member.

The Chairman's comments today are precisely on point. There is an affordable housing crisis across the country, measured not simply in statistics, but in the lives of American families.

We are all in this room, I suspect, lucky enough to be able to think back to where we grew up, one address or two addresses of a house we knew, a house with stability. For so many American families, that is not the case, particularly in city center areas.

In addition, the crisis in affordable housing forces families to make very difficult choices to live in an inadequate and, indeed, dangerous, house, or to have no place at all to live. And one of the real dangers that we find, particularly in the northeast, but across the country, is the pervasive nature of lead-based paint in houses that poison children. It is the number-one preventable pediatric disease in this country.

And yes, it is not just about money. But, frankly, the scope and the nature of this housing crisis requires more resources. It requires them to be spent well and wisely. But anyone who would suggest simply by reorganizing HUD we are going to deal with this

problem, I think is missing the point. We have to put real resources to address a real crisis. And I thank the Chairman for scheduling this hearing. I would also like to make my full statement a part of the record.

Chairman SARBANES. It certainly will be included in the record.

Senator Miller.

COMMENT OF SENATOR ZELL MILLER

Senator MILLER. I have no statement at this time, Mr. Chairman.

Chairman Sarbanes. Thank you.

Senator Stabenow.

STATEMENT OF SENATOR DEBBIE STABENOW

Senator STABENOW. Thank you, Mr. Chairman, for holding this important hearing. And I think one of the opportunities that we have now with the extended session is to focus on our oversight responsibilities. And I think this is incredibly important and we appreciate everyone being here today.

I am hopeful that we can focus in a way that brings some consensus among all the stakeholders about where we need to go in terms of the next year's budget.

I certainly share the concerns, though, of the Chairman and of Senator Reed in terms of the challenges that real families are facing and with the downturn, and in fact, the official designation now of a recession, we certainly are seeing families that are being squeezed greatly by the economy, by layoffs.

And I think all of us want to have a home for our children, to have safe housing that is free of lead paint and is a house that is not your car or some tent that is out in a park, which we have seen too many people finding themselves in this situation.

I did want to stress, Mr. Chairman, that I am very concerned about the cuts that were made in Community Development Block Grants. I hope we are going to see a reverse in that and a commitment to move forward for those kinds of resources that are important for communities and for individual homeowners.

And I am very concerned, and I know my good friend, Senator Jon Corzine, has mentioned this as well, his concern. But the fact that the budget eliminates the Public Housing Drug Elimination Program earmark is of real concern to me.

This is a broad, bipartisan program. And when you couple that with the fact that we have seen a retreat in funding for Operation Same Home in the Office of the Inspector General of HUD, I am very concerned in terms of what this means as it relates to safe and drug-free public housing and communities.

I would assume that the Administration's position is not that we are seeing a lessening of the problem of illegal drugs in public housing, but that we need to be very focused on safe homes and effective programs that eliminate access to drugs for our children in public housing and for all of our residents. So, I am very concerned and interested in knowing what the strategy is in terms of enforcing against illegal use of drugs and trafficking of drugs in our housing complexes.

With that, I would just again welcome those who are with us today and thank you, Mr. Chairman, for a very important hearing, and know that we have a lot of work to do. Families are counting on us and hoping that we will put together effective programs that obviously use the dollars wisely, but certainly make sure that resources are available for families to be able to have what is a fundamental American Dream, which is a home for their family.

Thank you.

Chairman SARBANES. Thank you very much, Senator Stabenow.

Senator Corzine.

COMMENTS OF SENATOR JON S. CORZINE

Senator CORZINE. Thank you, Mr. Chairman. I appreciate, as the other Members do, your holding this hearing. This is one of the most important topics I think we face in the Congress. Making sure that we do those things that help provide American families with decent, safe, affordable housing is a responsibility that I take very seriously and I know my colleagues on the Committee do. And we share your commitment to that, Mr. Chairman.

I have a formal statement I will put in the record. But I want to underscore the things that Senator Stabenow just spoke about, the drug elimination program, which, starting with testimony by then-designate Martinez, the idea that this program was going to be supported was commented on both verbally and in writing and then dropped, I think just flies in the face of the facts of what we see when you go into public housing projects across this country.

Decent, safe, affordable housing is something that is our responsibility and I am absolutely frustrated beyond belief with the elimination of this program. The Community Development Block Grants that Senator Stabenow spoke about strike at the very heart of our elderly, disabled, low-income communities.

We have a lot of work to do here, and I appreciate the witnesses' participation. I have a formal statement, but this is one that I do not think we can give enough attention to.

Chairman SARBANES. Thank you very much, Senator Corzine.

Ms. Sard, I think we will begin with you, and then we will move across the table.

Barbara Sard is currently the Director of Housing Policy at the Center on Budget and Policy Priorities here in Washington. Prior to working at the center, Barbara Sard, a graduate of Harvard Law School, was the Senior Managing Attorney of the housing unit at the Greater Boston Legal Services, where she served for some——

Ms. SARD. A long time.

[Laughter.]

Chairman SARBANES. A long time. I accept that characterization.

We are very pleased you are here. We know the terrific work you have done in working on renewal of tenant-based Section 8 contracts, changes in the project-based voucher program, the development of policies and rules to implement the merger of the tenant-based certificates and voucher programs.

You have really made a number of very significant contributions which we are aware of and grateful for, and we would be happy to hear from you.

STATEMENT OF BARBARA SARD
DIRECTOR OF HOUSING POLICY
CENTER ON BUDGET AND POLICY PRIORITIES

Ms. SARD. Thank you very much, Senator, and I appreciate the opportunity to testify today before the Committee.

I am going to touch on three issues in my testimony: reviewing some of the recent data on housing needs, highlighting some of the recent research that substantiates what I think we know in our gut, which is that housing makes a difference in the lives of families and children, and finally, making a few recommendations related to voucher program funding for next year.

On the data side, recent data show that despite the increased level of work effort in the population, poor and near-poor families continue to have serious housing problems. As the Senator said, in 1999, there were 4.9 million households with incomes under half of the median who either paid more than half of their income for housing or lived in severely substandard housing.

Even among those households with such low incomes, most who are not elderly or disabled are relying on earnings primarily for their livelihood. Four out of five rely primarily on earnings. So this is not a problem just of the so-called dependent poor or welfare poor. This is a problem of low-income working families.

If you have the testimony there is a graph which we did not have the funds to blow up. I apologize. That takes the data from the 1999 housing survey and shows that more than three-quarters of the families problems are solely that they are paying more than half of their income for housing.

They live in decent housing. They live in uncrowded housing. For those families in particular, vouchers can solve their housing problem. They can potentially use vouchers right where they are and solve their affordable housing problem.

But for many families, vouchers have been more difficult to use recently because of the declining vacancy rate, as the Senator mentioned. And in all regions, there is a reduced supply of units affordable even to families with vouchers, at rents that are appropriate for the program.

And that is particularly true of larger units, the units needed for families with three or more bedrooms. And so, that is really an important thing to think about in terms of the production side, that for vouchers to work for these larger families, we need more units.

I also want to highlight location of housing as a very important issue. The steepest decline in available rental units at the right rents for the voucher program was in the suburbs. But as we know, the suburbs are where most of the job growth is occurring.

If families are going to have a chance of working, or a better chance of working, it is very important that we target production of rental housing substantially to those suburban areas or other areas of high job growth and link that newly produced housing with vouchers.

As you probably also know, renter households at the lowest incomes, those called extremely low income, below 30 percent of area median, have by far the highest incidence of housing problems.

And another important feature of the voucher program is that it is the only one of the current Federal housing programs that is pri-

marily targeted on these extremely low-income families. Every year 75 percent of vouchers have to go to these households. If we want to get scarce resources to the people that need them the most, it is important to have new vouchers.

On the production side, our current tools, the Low-Income Housing Tax Credit and the HOME program, have been shown to work without additional subsidies only for households with income above about 45 percent of the area median.

My testimony includes data from two recent HUD studies that show the extent of extreme rent burdens for families in tax credit and HOME developments if they do not also have rental assistance through the voucher program.

Given our priority on welfare reform and its timeliness with the reauthorization coming up next year, it is important to look at the data on what families leaving welfare earn.

The recent studies have shown that the typical family nationally who goes to work from welfare still has to pay 57 percent of its income for housing. If you look at the chart, we took the data on earnings from the 14 jurisdictions where HHS has financed what are called welfare leaver studies. You can see that these families would have to pay from 52 to 129 percent of their income simply for modest housing.

There is a growing body of research that indicates that having housing subsidies makes welfare reform efforts more effective. In Minnesota, the evaluation of the MFIP demonstration showed that almost all of the increases in employment and earnings that were shown to be so significant in that demonstration were attributable to the families who had housing assistance of some kind. Families without affordable housing basically did not benefit from the welfare reform effort.

The studies that have been done looking at children have shown that having affordable housing, particularly having vouchers that families use to move to better-off areas, makes a great difference in children's lives, most notably in education. The education results have been stunning. Given our current priority on education reform, I would suggest that if we ignore housing, it is like trying to reform education with one hand tied behind our back.

Finally, on the budget. As you know, the number of new vouchers funded this year was 70 percent below the number that had been funded in 2001. Indeed, the number of new vouchers funded in 2002 was the lowest under a Republican President since the first budget of the Reagan Administration. There is a chart that we updated from HUD's data that shows that only in the fiscal 1982 budget were there fewer new vouchers funded when there was a Republican President in office than this past year.

One thing to be very carefully on the look-out for in the HUD budget this next year is the fact that about $1.8 billion in additional budget authority is going to be required just to stay even. And that is because of the multiyear Section 8 contracts that are expiring, as well as a few other technicalities that I explain in the testimony.

So-called increase of $1.8 billion is no increase at all. It is only holding the ground, which obviously is a problem and a squeeze for other parts of the HUD budget. But for all the reasons I have

talked about, it remains very important to continue to increase the Federal investment in vouchers and expand the number of families helped. And I would suggest, in particular, that we look at the need for new vouchers targeted on families moving from welfare to work in this coming year of TANF reauthorization.

It is also important in order to make vouchers more usable in communities of high job growth, that housing authorities be able to pay an adequate amount of money with the vouchers. And one proposal that is in our testimony that we hope this Committee will seriously consider is increasing the amount that housing authorities can pay to 120 percent of the fair market rent. If this Committee proposes legislation that would change the statute in that way, that also has a fiscal effect that would have to be considered in the budget.

There are a number of other proposals as well in the testimony that can improve the effectiveness of the voucher program which have a small financial impact, but that are yet important to pay attention to.

Thank you.

Chairman SARBANES. Thank you. The vote has started. And I think, Mr. Skinner, probably rather than starting with you since we are already into the vote, we would better recess and go and vote and then we will return and resume the hearing.

You all appreciate that this is the way it works.

[Laughter.]

Mr. SKINNER. We understand.

[Laughter.]

Chairman SARBANES. The hearing will stand in recess, subject to the call of the Chair.

[Recess.]

Chairman SARBANES. The hearing will resume.

We will now turn to Ray Skinner, who has a quarter-century of experience in housing, economic development, community revitalization, real estate development, and urban planning.

Since 1988, he has been the Secretary of the Maryland Department of Housing and Community Development.

Mr. SKINNER. Since 1998.

Chairman SARBANES. 1998, yes. What did I say?

Mr. SKINNER. You said 1988.

Chairman SARBANES. No, I am sorry. 1998.

Mr. SKINNER. I have not been there that long.

Chairman SARBANES. Well, you have done a good job, so we are pleased with your presence there.

We are very pleased to have Ray here and we would be happy to hear from him.

STATEMENT OF RAYMOND A. SKINNER
SECRETARY OF HOUSING AND COMMUNITY DEVELOPMENT
THE STATE OF MARYLAND
TESTIFYING ON BEHALF OF
THE NATIONAL COUNCIL OF STATE HOUSING AGENCIES

Mr. SKINNER. Good morning, Senator Sarbanes. It is always a pleasure to see you. Actually, before beginning my testimony, I would just really like to thank you on behalf of my department,

and really, on behalf of all the citizens of Maryland, for your unwavering support for housing and community development programs. We really do appreciate that.

Chairman SARBANES. Thank you.

Mr. SKINNER. Mr. Chairman, Members of the Committee, my name is Raymond Skinner and I am Secretary of the Maryland Department of Housing and Community Development. It is a pleasure to be here today. I really appreciate the opportunity to testify on behalf of the National Council of State Housing Agencies. NCSHA, as you know, represents the housing agencies of the 50 States, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.

I want to thank you, Mr. Chairman, and many of the Members of this Committee who cosponsored and helped enact legislation last year to increase the caps on housing bonds and housing tax credits. However, unfortunately, even with those increases, many people qualified to receive bond and credit help still will not get it, in some cases because of three obsolete and I guess somewhat obscure Federal requirements that prevent it.

I will not go into what they are in the interest of time, but they are outlined in my testimony. However, we believe that Senate Bill S. 677 fixes these problems. Forty-seven Senators have already cosponsored it and more than half the House has cosponsored an identical bill, H.R. 951. The National Governors Association and 20 other major State and local government, public finance, and housing groups have also endorsed this legislation.

We want to thank the Members of the Committee who have cosponsored S. 677, and certainly urge all Senators, especially my Senator from the Great State of Maryland, to cosponsor it and to press for its inclusion in a tax bill very soon.

Last year, Congress did more than just restore the purchasing power of the bond and credit caps that the bond and credit caps had lost since they were established in 1988. What you did was also index those caps for future inflation so that they would never again be robbed of their purchasing power due to inflation.

Regrettably, Congress has made no similar provision for Federal housing spending programs. Today's HUD budget is a third of what it would have been had it kept pace with inflation since 1976. Had HUD budgets been adjusted for inflation over the last 27 years, $1 trillion more would have been invested in affordable housing. The HUD budget has remained flat in nominal terms. It has barely grown from $29.2 billion in 1976 to $30 billion in 2002, and has lost two-thirds of its purchasing power due to inflation.

The HOME program dramatically illustrates the tool inflation has taken on Federal housing funding. Congress authorized HOME at $2 billion in 1992, but appropriated only $1.5 billion that year. Since then, it has funded HOME at levels steadily outpaced by inflation. If Congress had funded HOME at its authorized level of $2 billion and adjusted that amount annually for inflation, HOME today would be funded at over $3 billion. That is more than 1½ times the $1.85 billion that you just appropriated.

As the Federal housing resources shrink, the number of families with critical housing needs remains startlingly high, as we have already heard. One out of eight American families has a critical housing need. That is 14 million families, including homeowners

and renters, ranging from the very poor to those actually in what would be considered the middle class. Families hardest hit, of course, are those with the least incomes. Of those 14 million families, 84 percent earn 50 percent of their area's median income or less. A stunning two-thirds have incomes of 30 percent or less.

In my State of Maryland, we also have acute unmet housing needs, particularly among the very low-income and extremely low-income families. We estimate that about 70 percent of all extremely low-income renters in Maryland pay more than 30 percent of their income in rent, and half pay more than 50 percent of their income.

And even with the housing cap increase, requests for credits exceed our supply. In fact, we just completed a housing tax credit round where we had $4 of requests for every dollar of tax credits available. We also exhaust our private activity bond cap annually and it too is vastly oversubscribed. Pressure on the bond cap will continue to build as the 10 year rule increasingly prevents us from recycling mortgage revenue bond mortgage payments into new mortgages.

Our HUD monies are also woefully insufficient. For example, this year, we received requests for more than two times our homeless assistance funding. We could immediately use another $13 million in HOME funds, and these are for projects that are already on the drawing boards and really could be funded within the next 6 months or so. And also, we received requests for two times our available CDBG housing funds. Most people do not normally think of CDBG as a housing program. But States do use CDBG funds for housing. Nationally, the average is about 20 percent of the CDBG funds. In Maryland, we use about 35 percent of our CDBG funds for housing, for housing rehabilitation and for site acquisition.

Some would say more tenant-based vouchers are the answer. Clearly, vouchers are an important tool and we certainly need more of them. But in Maryland, and in many other States, and in fact, the first witness has already mentioned this, vouchers are of no use in a number of areas where there is simply no affordable housing to rent. In Howard County, Maryland, for example, the housing department reports the vacancy rate is actually less than 1 percent—0.57 percent, to be precise. And there are other counties in Maryland where the vacancy rate is less than 2 percent. More vouchers will not address the problem of the lack of supply. Simply put, we need to produce more units.

Unquestionably, Congress must find a way to devote substantially more Federal resources to affordable housing. But whatever Congress provides undoubtedly will not be enough to meet the total demand. So it is essential that we make the most of every Federal housing dollar.

This requires eliminating unnecessary and outmoded Federal rules and regulations that slow the delivery of funds, increase the costs, and frustrates results. The changes we propose to the bond and credit cap programs in S. 677 are just a few of the examples of the changes that are needed to maximize dollars spent. We also have a number of ideas for streamlining HOME and other HUD programs to make them work more effectively and efficiently, both separately and, even more importantly, to work together, and we

look forward to sharing them with you, some of which are, again, in the longer testimony.

Finally, existing resources are insufficient to meet the Nation's affordable housing needs, particularly those of extremely low-income renters. That is one of NCSHA's highest legislative priorities, and a priority of the National Governors Association, is the creation of a new, State-administered, rental production program targeted to very low-income families. We want to work with you to design a program that builds on the success of programs like the housing bonds, the housing credit, and HOME, that utilize existing, proven State delivery systems, is integrated with existing State housing allocation plans and funding systems, and provides States the flexibility we need to tailor innovative solutions to our unique housing needs. And clearly, they are unique from State to State.

In conclusion, we have a long way to go to close the ever-widening gap between housing need and housing resources. There is no simple single answer. But, clearly, three steps would make a significant difference. First, housing program funding at least sufficient to keep pace with inflation. Second, the deregulation and devolution of existing programs. And third, new, flexible, State-administered resources to fill the gaps, particularly in our ability to house our most needy families.

I want to thank you for the opportunity to testify today. NCSHA and our member State housing agencies are very grateful for your enthusiastic and sustained support of affordable housing and we stand with you and ready to assist you in any way we can.

Chairman SARBANES. Thank you very much, Ray.

I would say to all of our witnesses, your full statements will be included in the record. I have had a chance to look through them and I very much appreciate the obvious effort and work that went into giving the Committee a very full presentation. And it will give us and the staff an opportunity to work through them very carefully and digest the material you have provided to us.

The fact that we have to truncate the oral presentations is not—I want it understood that we appreciate the written presentations and we certainly will devote attention to them. But by the nature of how we have to function, we have to try to hold down the oral statements to a reasonable time.

Next, we will hear from Professor Olsen, Professor of Economics at the University of Virginia. He has been a Post-Doctoral Fellow in applied urban economics at Indiana University and has served as a consultant to HUD in a number of administrations.

Professor Olsen, we are pleased to have you here.

STATEMENT OF EDGAR O. OLSEN, PhD
PROFESSOR OF ECONOMICS, UNIVERSITY OF VIRGINIA

Mr. OLSEN. Thank you, Mr. Chairman. I welcome this opportunity to talk with you and the Members of your Committee about the HUD budget. I speak from the perspective of a taxpayer who wants to help low-income families, a taxpayer who has spent the last 30 years studying the effects of low-income housing programs. My testimony will focus on the HUD budget for these programs.

Given the current economic slowdown and the added expense of fighting international terrorism, it is clear that little additional

money will be available for low-income housing programs over the next few years. The question is: How can we continue to serve the families who currently receive housing assistance and serve the poorest families who have not been offered assistance without spending more money? The answer is that we must use the money available more wisely.

Research on the effects of housing programs provides clear guidance on this matter. It shows that tenant-based housing vouchers provide equally desirable housing at a much lower total cost than any type of project-based assistance.

My written testimony contains references to these studies and a brief description of them. These results imply that we can serve current recipients equally well—that is, provide them with equally good housing at the same rent and serve many additional households without any increase in the budget by shifting resources from project-based to tenant-based assistance.

The magnitude of the gain from this shift would be substantial. The smallest estimates of the excess cost of project-based assistance imply that a total shift from project-based to tenant-based assistance would enable HUD to serve at least 600,000 additional households with no additional budget. These findings have important implications for how the HUD budget should be spent.

First, the money currently spent on operating and modernization subsidies for public housing projects should be used to provide the tenant-based vouchers to public housing tenants, as proposed by the Clinton Administration and by Senator Dole during his Presidential campaign. If housing authorities are unable to compete with private owners for their tenants, they should not be in the business of providing housing.

Second, contracts with the owners of private subsidized projects should not be renewed. Instead, we should give their tenants portable vouchers and force the owners to compete for their business. There is no reason to believe that the mark-to-market initiative will improve the cost-effectiveness of the programs involved.

Third, the construction of additional public or private projects should not be subsidized. No additional money should be allocated to HOPE VI and there should be no new HUD production program.

These reforms will give taxpayers who want to help low-income families more for their money by greatly increasing the number of families served without spending more money or reducing support for current recipients.

Two main objections have been raised to exclusive reliance on tenant-based assistance. Specifically, it has been argued that tenant-based assistance will not work in markets with the lowest vacancy rates, and construction programs have an advantage compared with tenant-based assistance that offsets their cost-ineffectiveness, namely, they promote neighborhood revitalization to a much greater extent. My written testimony explains the conceptual problems with these arguments and, more importantly, shows that they are inconsistent with the available evidence.

We do not need production programs to increase the supply of units meeting minimum housing standards. The Experimental Housing Allowance Program demonstrated beyond any doubt that the supply of units meeting minimum housing standards can be in-

creased rapidly by upgrading the existing stock of housing even in the tightest housing markets. This happened without any rehabilitation grants to suppliers. It happened entirely in response to tenant-based assistance that required families to live in units meeting the program standards in order to receive a subsidy.

In the Housing Assistance Supply Experiment, tenant-based assistance alone produced a much greater percentage increase in the supply of adequate housing in these localities in 5 years than all the Federal Government's production programs for low-income families have produced in the last 65 years.

The available evidence also shows that housing vouchers enable us to move eligible families into adequate housing faster than any construction program under any market conditions.

The consequence of using the costly construction and substantial rehabilitation programs has been that more than a million of the poorest families who could have been provided with adequate housing at an affordable rent with the money actually appropriated for housing assistance have continued to live in deplorable housing or no housing at all.

I urge the Committee to take the bold steps necessary to serve these families, and I appreciate the willingness of the Members of this Committee to listen to the views of a taxpayer whose only interest in the matters under consideration is to see that our tax revenues are used effectively and efficiently to help low-income families.

Chairman SARBANES. Thank you very much, sir.

David Curtis is the Executive Vice President and Chief Financial Officer of Leon N. Weiner & Associates, a multifaceted real estate development firm which has long been recognized as an industry leader and innovator, particularly in providing affordable housing to individuals and families of moderate means.

Mr. Curtis is here today representing the National Association of Home Builders.

We are very pleased to have you here. We would be happy to hear from you, sir.

STATEMENT OF DAVID W. CURTIS
EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER
LEON N. WEINER & ASSOCIATES, INC.
TESTIFYING ON BEHALF OF
THE NATIONAL ASSOCIATION OF HOME BUILDERS, INC.

Mr. CURTIS. Thank you, Mr. Chairman. As you indicated, I am here representing the 205,000 members of the National Association of Home Builders. And like the other speakers, we want to thank you and the Committee for holding this very important hearing. It is an honor for me to be here.

We think the hearing is timely for many reasons. As we have already heard from you and from other speakers, affordable housing needs have reached a critical stage and impact a broad spectrum of households across the country.

In NAHB's opinion, the HUD budget should reflect the importance of addressing these needs. We think that by doing so, we can benefit families and communities, while allowing housing to play its traditional role in leading toward an economic recovery.

I want to focus my remarks predominantly on production and preservation because at NAHB, we believe that adequate supply of housing is central to addressing our Nation's housing needs.

Some of the most important Federal tools for housing have been the FHA multifamily programs. However, in recent years, these programs have been subjected to a start and stop cycle that has frustrated participation and production.

NAHB has repeatedly expressed concern about HUD's decision to raise the mortgage insurance premiums on these programs from 50 to 80 basis points for the simple reason that those increases translate into increased rents and decreased affordability. We believe that the model utilized by HUD and OMB is outdated and unnecessarily pessimistic.

Congress has directed HUD to work with the industry to review the technical assumptions in the model and FHA Commissioner Weicher agreed to complete a study by October 1, so that a revised formula could be in effect for the 2003 budget.

NAHB believes that completing that study, in cooperation with industry representatives, and implementing any changes for the 2003 budget cycle, is fundamentally important.

We applaud Congress for raising, as has already been mentioned, the FHA multifamily mortgage loan limits by 25 percent in the 2002 appropriations bill. Those limits had remained static since 1992 and had made the program unworkable in many areas.

Unfortunately, the bill did not include indexing for inflation, nor did it allow the HUD Secretary to make allowances in some cities for exceeding the 110 percent high-cost factor. We hope to work with Congress to include these modifications in the next year.

NAHB is very supportive of both the HOME and CDBG programs. HOME funds have become a critical source for gap financing for the production of affordable housing, according to locally identified needs, and I think that is important.

We support a funding level of at least $2 billion for the HOME program, as well as a significant one-time special allocation as an economic stimulus.

We also support an increase of CDBG funding to a level of at least $4.8 billion. We are pleased that HUD changed its position and allows CDBG funds for the construction of single-family new homes, and we would urge Congress to make the same accommodation for multifamily production.

With regard to Section 8, we would urge Congress to provide funds so that all Section 8 contracts can be renewed, including those under the mark-to-market program, and in this way, we can preserve the affordable housing stock that is in place now. As other speakers have suggested, we would also recommend that funding be provided for 79,000 new incremental vouchers.

As has already been mentioned, we are facing a critical housing shortage and large numbers of working families have urgent needs, but are not eligible for assistance under the current Federal housing programs. NAHB believes that the production of housing for those working families should be a top priority for next year.

We have developed a program that is designed to increase and maintain the affordable housing stock over the long term. The program would foster mixed-income housing and is designed to use

Government resources efficiently with small amounts of subsidy relative to the amount of housing produced.

No new program bureaucracy would be needed because we propose that it be administered in the same fashion as the HOME and the tax credit programs, and we believe funding should be made available for this new production program.

Finally, the Office of Policy Development and Research provides information that is very useful to the housing industry and we would suggest that HUD should collect data to assist in the development of new housing finance sources.

Specifically, more consistent, comprehensive and detailed data on multifamily loan performance is needed to more efficiently attract funds from the capital markets. Sufficient funding should be made available to support this data-collection effort by PD&R.

We at NAHB look forward to continuing to work with Congress, HUD, and our industry partners in achieving our mutual goal of a decent and safe home for every American.

Thank you very much.

Chairman SARBANES. Thank you very much, sir.

Kurt Creager is Chief Executive Officer of the housing authority in Vancouver, Washington. He is also the President of the National Association of Housing and Redevelopment Officials, an organization, of course, which we know very well and whom he is representing here today.

And we would be very happy to hear from you, sir.

STATEMENT OF KURT CREAGER
PRESIDENT, NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS AND CHIEF EXECUTIVE OFFICER, VANCOUVER HOUSING AUTHORITY VANCOUVER, WASHINGTON

Mr. CREAGER. Thank you, Mr. Chairman and Members of the Committee, and I want to thank Senator Murray for her gracious and warm introduction of me at the beginning of this hearing. We have had a long and cooperative working relationship dating back to her days as a State Senator.

For those of you who are not familiar with NAHRO, NAHRO members represent 95 percent of the public housing stock in the United States and are responsible for its management on a day-to-day basis. Our members also administer 93 percent of the Nation's Section 8 portfolio. And we have many members that are also CDBG, HOME, and housing finance agency administrators.

With me today is Larry Lloyd, who is Vice President of housing, and also Executive Director of the Anne Arundel, Maryland Housing Authority. Saul Ramirez, Executive Director-Designee for NAHRO, who will begin in January. And Rick Nelson, who some of you know as Montgomery County HOC Board Member. He is outgoing Executive Director of NAHRO and retiring at the end of this calendar year. I know you have appreciated his good work over these many years.

In Vancouver—America's Vancouver—the Vancouver Housing Authority is a diversified local housing provider. Half of our stock is not regulated by HUD. It is financed through bonds and tax

credits. We are the managing general partner of many tax credit partnerships. We operate and own emergency shelters, and we also provide homeownership assistance to people throughout the region. As Senator Murray mentioned, we have been the fastest-growing urban county in the Pacific Northwest over the last decade.

I will focus on three areas—housing and community development as economic stimulus, the need for reliable and predictable capital funding for the public housing capital fund, and the loss of the Public Housing Drug Elimination Grant Program.

First, as mentioned by the other speakers, housing is, and has proven to be, an effective economic stimulus. It provides family wage jobs, direct expenditures trickle very quickly through the economy, and in a resource-based economy such as the Pacific Northwest, it is quite important. Washington currently leads all 50 States in unemployment. And that is seasonally adjusted for October, before the 30,000 cuts that Boeing has announced are counted.

Housing and community development programs are as important today as they were in 1983, when the Congress provided supplemental funding under the jobs bill program. To give you one example, we are permit-ready as a local developer for a mixed-income, mixed-use project called Anthem Park. It is a $14.5 million project that will be built for us by Westwood Swinerton of San Francisco, the general contractor. Less than 2 percent of this budget is Federal dollars. So you will be leveraging with merely a couple of hundred thousand dollars, $14.3 million worth of private investment and tax credit equity.

Second, I would like to speak about the public housing capital fund because we are deeply troubled about the perceived unreliability of appropriations for the capital fund.

In the Quality Housing and Work Responsibility Act of 1998 (QHWRA) you gave us a great new tool. You gave us a predictable source of capital finance which we could then bond against for the provision of capital improvements that are needed in the first year.

In the Pacific northwest, we have good housing stock. But we also have earthquakes. Senator Murray would like to remind you that we had a disaster actually before September 11, in the Nisqually earthquake and it took several housing units in the Seattle area out of service.

And when I look at my 5 year plan for capital investment, in Vancouver, it includes seismic retrofitting to senior high-rises. That is most effectively done at one time, rather than phased out over several years. And one way to do that is to bond against the future receipt of capital grant funds, as Chicago has done.

I must say, though, when the President's budget came out with a 25 percent cut, that threw the investment markets into disarray. Standard & Poor's and Moody's needed to understand that this was a reliable source of financing in which to bond against.

For small housing authorities which could not likely absorb the cost of financing individual securities using capital grant, housing authorities across the country, from Maryland to Washington, are looking at joint pooled projects, either through joint powers agreements or in the case of Maryland, through working with the State housing finance agency. That way, we can access lower-cost money at the bottom of the interest rate cycle, we hope, and to put that

capital investment to work right away. Reliable capital expenditures are important to us, as is the predictability of appropriations.

The third issue has to do with the PHDEP, or the Public Housing Drug Elimination Grant Program. The loss of this program is, I think, profound because it signals a larger issue. We have heard the Department talk about its need to return to its core mission, which means, apparently, that support services are not part of the Department's core mission.

We know that most of this money was either used for youth activities, which is a prevention activity, or for law enforcement, which is a direct enhancement to the service of public housing neighborhoods.

Both of those are a great loss, and especially after September 11. Local governments are in no position to provide even a modicum level of support to public housing neighborhoods, which is deeply troubling because they have a disproportionate share of children and frail, vulnerable adults living in them.

It is not adequate to provide a baseline of public service to those neighborhoods. They need additional support and services. And this program is one way to pay for that. Seattle and King County alone are experiencing a $1.5 million cut. They serve 35 cities and those cities will not replace those services with law enforcement.

I think it is appropriate to call into question the Department's belief that they are returning to their core mission. We learned in the last 20 years that we need more than sticks and bricks to make public housing neighborhoods effective, vital, and safe places to live. And if we accept that reasoning, then we must also accept that family self-sufficiency and services for the homeless throughout McKinney would be vulnerable, which we cannot accept.

In closing, I would like to say that we have found a great deal of common ground with the new Administration. We are working cooperatively on issues such as restructuring the so-called PHAS system, the Public Housing Assessment System. NAHRO and Standard & Poor's are developing a replacement for PHAS, which we are working cooperatively with the Department on. So I want you to know that while we have differences on budget matters, we continue to work cooperatively together in the future.

In summary, please do consider these programs as they are essential to the health of cities across the country.

Thank you.

Chairman SARBANES. Thank you very much, sir.

Our final panelist is Bart Harvey, who is Chairman of the Board of Trustees and Chief Executive Officer of the Enterprise Foundation. Enterprise is a national, nonprofit organization that mobilizes private capital to support community-based organizations in a wide range of neighborhood revitalization initiatives.

And many of us, I think, are personally acquainted with the fine work which Enterprise does. They are really one of the leading nonprofit organizations in the field.

We are very pleased to have Bart Harvey here. We would be happy to hear from you.

STATEMENT OF F. BARTON HARVEY
CHAIRMAN AND CEO, THE ENTERPRISE FOUNDATION

Mr. HARVEY. Thank you very much, Chairman Sarbanes. And I would like to thank the whole Committee for having this hearing today.

As you heard, Enterprise Foundation is a national nonprofit organization. It was started by Jim Rouse in 1982, and it is the original public/private partnership. We partner with over 2,000 nonprofits, mostly grassroots around the country. We have raised and committed over $3.5 billion of private funding, which has leveraged another $8 billion of private and public funding to help produce over 120,000 affordable homes.

Mr. Chairman, we also thank you, Senators Kerry, Reed, and Leahy, for their efforts to include housing in the Senate's economic stimulus plan. And certainly, it deserves to be there. It generates jobs and other economic development and it helps those who have been most affected by this crisis at the same time.

You all have heard about the need for affordable housing. My only comment on it is that it will get worse if this recession deepens. And it will affect people even more, those that can least afford it.

I also would like to thank Congress for intervening in the last fiscal year 2002 appropriation to try and increase what the Administration had proposed. And I certainly expect that that may need to be the case again for year 2003.

Finally, Senator Reed, you and others mentioned the need for lead-safe housing and the scourge of lead poisoning. And Enterprise and others have got housing and health practitioners and the Centers for Disease Control and created the National Center for Lead-Safe Housing. And there is a prototype out there that works very closely with HUD. And HUD's funding is very much needed in this area as well.

I have been honored to be one of the commissioners on the Millennial Housing Commission. And the commission has had hearings all across the country, from Washington, DC to Chicago and rural areas, all the way to California. And we get the same story back from those hearings. Over and over again, city, rural areas, that, first of all, housing has to be seen in the context of community, work, and transportation.

Therefore, what HUD needs to do most is to have flexible funding. It needs to be devolved to the States and localities where they can make that decision, the best decision. It needs to be able to be leveraged with private resources. And people do not want to figure out the regulations for a lot of new programs. Rather, they would like to see some common sense changes in current regulations.

While everything that everyone has said on this panel is important, and I think vouchers are important, public housing is important, new private mechanisms are certainly important, it is not an either/or situation we are looking at. It is a both/and.

Vouchers make sense in some cases. Production makes a lot of sense in others. I would like to just focus in on three specific programs that are terribly important to the work that we are doing in our public/private partnership.

First of all, the HOME program. We have a shortage of 2.8 million rental apartments affordable to extremely low-income people. Three quarters of a million apartments affordable to such renters were lost between 1997 and 1999 alone. And there is the threat to more units being lost.

A simple, effective way that Congress can help fill this gap and increase production would be to increase the annual HOME appropriation. If you remember what I said about the Milliennial Housing Commision's hearings, it is flexible. It is locally administered. It is a leveraged program, and it is highly targeted to those that most need it. There is a decade's worth of evidence that certainly argues for it. It is financed more than 617,000 affordable homes and currently produces more than 70,000 homes a year. Of HOME-assisted renters, nearly 90 percent were very low income. Every home dollar generates almost $4 in additional private and other investment.

HOME is especially important for the community-based groups that Enterprise works with. And we would certainly encourage HUD to request and Congress to provide $2.9 billion in HOME funding for fiscal year 2003, and that is merely an inflation adjustment to the program from when it started in 1990.

Second, we also think that HUD and Congress should make a priority in 2003 to expand the capacity of the community-based groups that deliver housing. And here, we are talking about pennies in the overall budget. But capacity building is an important outreach by HUD to match private funds and to help these organizations retain staff, upgrade computer systems, develop business plans, and form new partnerships. Enterprise and other entities help distribute these funds to increase the capacity of grassroots groups, of nonprofit groups.

The Urban Institute found that the community group strength, production, and local support systems have grown significantly, thanks in part to capacity-building investments. The Urban Institute went on in its report to say, grassroots groups, "In many cities, are now the most productive developers of affordable housing, outstripping private developers and public housing agencies." And again, the cost is relatively small. There is a program called Section Four, which says that every Federal dollar needs three private dollars to be leveraged before it can go out, so that these groups are not unduly dependent upon Federal money. Again, a way of priming the pump and a public-private partnership across the country.

Finally, we think you need more programs that gets private capital to work, particularly for affordable housing. Everyone knows the low-income housing tax credit and it is a terrificly successful program. But HUD also encourages a similar type of program called the Community Development Financial Institutions Fund. And this fund stimulates the creation and nurtures the growth of community-based financial institutions working to revitalize distressed and underserved communities.

In 1999, entities that receive this funding finance nearly 25,000 homes and apartments, virtually all of which were affordable to low-income people. Nearly 60 percent of funds certified—CDFI's, as they are called—serve smaller urban areas and 62 percent serve

rural communities. This is creating capital in areas that need it, focus it on the immediate issues and problems, and leveraging it with private sources. Again, it is a very small part of the budget. But, regrettably, it was cut by almost a third in the 2002 HUD appropriation. We would certainly like to see that funding restored.

The Administration talked, and President Bush talked about a homeownership tax credit, and we wholeheartedly subscribe to having a homeownership tax credit and we hope the Administration will come forward with it. Looking at the low-income housing tax credit, it would be a wonderful vehicle for private capital to flow in a system that people already understand and again leverage other dollars.

Let me just conclude, if I may, by saying that post-September 11, now, more than ever, our Nation needs to be strong and united. We believe that the sources of that strength and unity include family, faith, community, and a place called home. Now, more than ever, home matters. Home is the family's foundation and an anchor in times of turbulence. Home means security and stability. Home helps define and sustain communities, forming the fabric of our neighborhoods and the relationships that bind us.

I would just urge Congress that it have the public do the public part of a public/private partnership and allow the resources so that we can stimulate private investment, public/private partnerships that will make a difference, and allow people to solve problems in localities across this country.

Thank you very much.

Chairman SARBANES. Thank you very much. We have been joined by Senator Carper. And before we go to questions, Tom, did you have any statement, brief statement.

COMMENT OF SENATOR THOMAS R. CARPER

Senator CARPER. I will be very brief.

[Laughter.]

Uncommonly brief.

[Laughter.]

I want to welcome each of our witnesses today. We thank you for your testimony. I especially want to welcome Dave Curtis from Delaware, someone who we have a lot of respect for in our State on these matters.

I have a statement I would like to ask unanimous consent to be included in the record, and thank you, Mr. Chairman.

How was that? Uncommonly brief.

[Laughter.]

Chairman SARBANES. Mr. Skinner, I know you have some other pressing engagements and at some point, you will have to leave. When that point comes, I would just invite—if you ever saw "The Sound of Music," you know, when they disappeared off the stage quietly——

[Laughter.]

You can do that whenever you feel it is necessary to do so.

Mr. SKINNER. Thank you, sir.

[Laughter.]

Chairman SARBANES. Given the number of Members that are here, I think we will have 5 minute rounds. And then if we want

to continue, we will come back around again. But I want everyone who has been here, and some have been here for quite a while, to have a chance to ask some questions.

I want to start with the first building block. Often, we do not discuss preserving the stock of existing affordable housing. We talk about providing additional housing, and I think that is a very important thing and we are focused on that. And obviously, there is a tremendous need, as I outlined in my statement.

We talk about new housing, either through vouchers or new construction, some combination thereof. But I want to go back to what we need to do to preserve the stock of existing affordable housing because we are losing a significant amount of that stock.

I understand Enterprise has a partnership with the National Housing Trust, called the Preservation Corporation. Bart, could you talk briefly about what you do in this area, and what role you think preservation should play in HUD's budget proposal and in housing policy generally? And if others want to add comments, we would be happy to receive them.

Mr. HARVEY. Thank you, Senator.

The Enterprise Foundation teamed up with the National Housing Trust. It is probably one of the best organizations that had chronicled every single apartment or rental unit across the country that is at risk of being lost as far as its affordability goes, either from opt-out or a whole number of other issues.

We came together and provided capital and said, well, why don't we help go out and preserve those units because, first of all, it is the most cost-effective thing you can do. The cost of preservation is far less than the cost of new production in most places.

In a whole number of places that are gentrifying, there has been a long fight to get private investment and then the very people that have led that fight are, in essence, going to be squeezed out of their neighborhoods. So there is a question of equity as well.

And there are some things that are very important. First of all, we believe it should be handled through States and localities. You will need funds like HOME funds, which are flexible funds that can be used to buy out owners. And then there is the need for exit tax relief. And the Millennial Housing Commission, this is one of the prime issues they will be coming back with some recommendations around the exit tax relief issue. But even after that, you are going to need flexible funds. And you should have decisions made locally as to what are the most important areas of preservation. This is a very cost-effective, very important issue for the country.

Chairman SARBANES. Does anyone want to add anything?

Yes, Mr. Olsen, go ahead.

Mr. OLSEN. Any housing unit can be made affordable with a sufficient subsidy. All of the units in the tenant-based Section 8 voucher program, are adequate units made affordable with tenant-based vouchers. The real issue here is, what programs will get families into adequate housing that is affordable at the lowest cost to taxpayers? And the answer to that is tenant-based vouchers.

Guaranteeing subsidies to particular units that are independent of the condition of the units, provided only that the units just meet minimum standards, is one of the reasons for the excessive cost of

project-based assistance. So I would say, let us let the tenants do the monitoring.

Chairman SARBANES. Well, I want Ray Skinner to address this. But don't you have a situation in which you have established project-based affordable housing. If you do not sustain it, the owners of it, given developments that have taken place in some instances, will simply take it out of the affordable housing market and shift it over into an entirely different market?

Maybe if the project is a pretty good one, it has in effect helped to upgrade the neighborhood, and you will lose that housing altogether for affordable purposes. What do you think about that, Ray?

Mr. SKINNER. Well, we certainly believe that preservation is a critical issue. As you have indicated, and others have, there has been in fact a net decrease in the number of affordable housing units. In Maryland, many of the projects that we now finance, both with our tax credit program and our mortgage revenue bond, the multifamily mortgage revenue bond program, are in fact preservation projects. These are projects where new owners come in and acquire and rehab those units and put them back into affordable use. And as has just been mentioned by Bart, we also use HOME funds to help to bring down the rents in those projects. And we are fortunate here in Maryland that we have a great State commitment to affordable housing and we use State-appropriated dollars also to help keep those projects affordable.

Not only that, but we require long-term affordability requirements beyond 30 years. Many of our projects, when we go through the acquisition rehab process, are required to be affordable for another 40 years, in some cases, as much as 50 years.

Mr. CREAGER. I would also mention, Mr. Chairman, this is a particular challenge for rural America. The preservation of existing affordable housing, the RDA and USDA financed stock that dates back to the 1960's, and is often the only affordable stock in the community. They have their challenges because they are now 30 years old and need significant reinvestment.

You took a major step in the right direction by reauthorizing and expanding on bonds and tax credits because a lot of those debt and equity instruments can be used to refinance those properties.

We are also looking, of course, in 2002 at the first generation of long-term housing tax credit projects that were placed into service in 1987, which are now at the end of their 15 year regulatory term.

You may recall that from 1987 to 1989, most States only imposed the minimum 15 year affordability requirement, and after that point had extended affordability requirements. Local housing providers, nonprofits, housing authorities, and others will be working with the owners of those properties to extend them 30 to 50 years into the future.

Mr. HARVEY. Could I just comment back on one of the statements by Mr. Olsen? I do not think it is only what is the cheapest way of doing something because you are dealing with human beings here. And there are people who have lived in a community that are elderly, that would get displaced, and maybe you could send them somewhere else with a voucher.

But a lot of the segregation we get comes from the places that will take vouchers and those that will not, and that there is an

adequate supply near work places, there is not the ability for people to live in certain communities along the way.

It is not just cost. And I am happy to take on the issue of cost as well. But it is about community and people and where they live and where they want to live, and how do you do that effectively, and cost effectively.

Chairman SARBANES. One of the things we have been working on, particularly with the elderly and the disabled, is to put into play a range of services along with housing. I am going to yield to Senator Allard as I notice that my time is up.

And it is difficult for me to see how you accomplish that if you completely depart from project-based housing because that gives you a sufficient way to bring in those services. And you are talking about elderly people—I mean, we could carry the analysis out further, and the argument weakens a bit.

But it seems to me, on the elderly and the disabled, you have a real challenge in terms of providing them a housing situation which adequately addresses their needs. And it seems to me that their challenge is different from, say, a younger working family that can take a voucher and go somewhere else, assuming they can find the housing, and address their housing needs. Yes?

Ms. SARD. Senator, if I may respond to that. In terms of Bart Harvey's comment, it is important to recognize that there are about a million tenants in the project-based Section 8 stock who are elderly and disabled. And I agree with his comments about the importance of community and yours about the importance of being able to link services to those people.

I want to note for the Committee that last year, Congress enacted a new tool within the voucher program called Project-Based Vouchers, which is an important tool for expanding, I think, what everyone would agree with here. It makes service-linked or service-intensive housing possible while providing the market discipline mechanism because this new project-based voucher is one that the tenant can move with if the tenant chooses to, while the development has a guaranteed stream of subsidy as long as it remains in good condition. We have some new tools that housing authorities can now use and more vouchers would make it even more possible for them to do more of such housing for an aging population.

Chairman SARBANES. Senator Allard.

Senator ALLARD. Thank you, Mr. Chairman.

You have all supported in your comments the HOME program. It has been noted by myself at least that support. There have also been people who are proposing new housing programs.

I would like to have you comment on just simply going ahead and increasing over time the amount of money that we put into the HOME program in lieu of creating new programs. And I would like to have each member of the panel who would like to comment on that thought.

Mr. HARVEY. Let me start, since I am in agreement with you.

There are a number of other options that have been proposed. There is a housing trust fund. Again, the Millennial Housing Commission is working on some other offshoots of it. Basically, they are variations on a theme. And again, the theme is to have a flexible

program that is targeted to serve who most need that service. And that can work with tax credits and other Federal programs.

And I do not think they are mutually exclusive and I think, in essence, through the HOME program, or even alterations in the HOME program, you can achieve very close to what these other programs are proposing. I do not think there is any disagreement and there are some merely variations on a theme here.

Senator ALLARD. Mr. Creager.

Mr. CREAGER. Senator, thank you for the question. We at the Vancouver Housing Authority actually implement projects using HOME funds.

I was pleased to be here in the early 1990's when Senators Cranston and D'Amato led this Committee and spoke to the reauthorization of the HOME program in 1992. I believe that HOME is a little too restrictive. If you recall the legislative history, the program was put upon a Secretary of HUD that did not support it. Therefore, many of the program rules and regulations were codified into the Act. So that has really limited administrative flexibility of the Department to use it.

Senator ALLARD. So these were rules and regulations put in by the Congress.

Mr. CREAGER. That is correct.

Senator ALLARD. And not by HUD?

Mr. CREAGER. Jack Kemp did not want the program.

Senator ALLARD. So if we work to remove some of those rules and regulations, then the possibility of that flexibility that we granted there makes it less likely, less of an appeal to go to new programs.

Mr. CREAGER. I would say that if you do not do a production program and look to HOME, then improve upon HOME. Do not just add money to it. That said, NAHRO does support a $2 billion appropriation level, which is the initial authorization for the program, and does not have a position beyond that as expressed by others.

Senator ALLARD. We will just go down the table.

Mr. Curtis.

Mr. CURTIS. Thank you. I suppose in a very simple sense, what we need to produce affordable housing is subsidy in some form, so that increasing HOME dollars with the elimination of some of the restrictions that have been alluded to may in fact, given appropriate flexibility, provide the additional subsidy that is needed for a new housing production program.

At NAHB, we are focused on trying to create mixed-income housing because we think that is most advantageous for the families that live in the developments, as well as the community, developments that look like anywhere in the United States, rather than a warehouse of poor people, if you will. In order to do that, one of the approaches that we have been working on is to combine a moderate subsidy with debt that would be issued by the Government, whether it be in the form of Ginnie Mae securities.

What I am saying is I do not think it is as simple as simply increasing HOME dollars. We would need to wed some of these structures together to create a production program. But we think we can do that and agree that it should be done through the present delivery mechanisms of the HOME program and the tax credits.

Senator ALLARD. Mr. Olsen.

Mr. OLSEN. To the best of my knowledge, there is no serious independent study of the effects of the HOME program. And I am absolutely certain there is no cost-effectiveness study of the HOME program relative to tenant-based vouchers.

I would say two things about that. One, such a study is long overdue. Two, I see no reason to believe that HOME is going to be any more cost effective than the other production programs. HOME is mainly used for production-type programs. Until such a cost-effectiveness study is done, I would favor no additional money for the HOME program.

Chairman SARBANES. Professor Olsen, let me just interject. Is it fair to say that you oppose all programs that could be used to produce new affordable housing?

Mr. OLSEN. Yes.

Chairman SARBANES. Low-income housing tax credit, HOME, CDBG, mortgage revenue bonds—you are against all of those, right?

Mr. OLSEN. Absolutely.

Chairman SARBANES. Are you against the mortgage interest deduction tax credit?

Mr. OLSEN. Yes.

Chairman SARBANES. You are against that as well?

Mr. OLSEN. Yes.

Chairman SARBANES. Okay.

Senator ALLARD. Ms. Sard.

Ms. SARD. Returning to Senator Allard's question, my view is perhaps a little different from others on the panel.

I think more money into HOME would not accomplish as much as a new production program that was targeted on extremely low-income households. If you look at HOME, more than half of HOME funds have been spent on homeownership uses—in fact, largely on repairs for existing homeowners and then another share for expanding homeownership.

I am not intending to criticize homeownership. I think it is a question of what the Congress wishes to accomplish. More money into that stream is likely to be spent in similar ways. And less than half of the dollars are now used for rental housing production.

Also, a recent HUD study which is cited in my testimony shows that, of the extremely low-income households who live in HOME-funded rental units, those without housing assistance are paying 69 percent of their income on average for rent.

So HOME alone cannot produce rental housing that extremely low-income people can afford. If you are going to use that kind of shallow subsidy stream, it needs to be coupled with some kind of operating subsidy or voucher program in order to make it usable for the people with the greatest needs.

Senator ALLARD. Mr. Chairman, I see that my time is expired. I would like to just briefly request of those of you who would like to see some regulatory changes in HOME, in order to not have to look at new programs that perhaps are less restrictive, to suggest some changes to me. I do not know, maybe the Committee would be interested in getting that information. But certainly, I would be interested in getting where those rules and regulations are creating a problem in flexibility within HOME.

And if those are what is driving the new programs, as opposed to just expanding dollars in HOME, I would like to know what rules and regulations you think that is a problem in.

Chairman SARBANES. If it is not covered in the statements you have submitted, if you could submit a supplementary statement that addresses that issue to the Committee, it would be helpful.

Mr. CREAGER. I do want to make sure that you know that NAHRO does support a new production program and it is of course in my written testimony.

What you will find on review of a regulatory framework, is that it is easier to use the money for homeownership. That is why the majority of the money is being used for that purpose rather than rental housing production.

So some of the barriers are actually at the expense of rental housing production. It is not necessarily a bias of local government administration of the program.

Mr. HARVEY. And if I could just interject one final comment.

I have no disagreement. I am talking about the vehicle of HOME, and there are a lot of common-sense things that you could do to make it more productive. But if Congress wanted to target—and we think it ought to—extremely low-income people, it would have to set up those sets of regulations within HOME, which could be easily done, to say that, look, this portion of it goes to X, Y, Z, or have a parallel program that works the same way so that people do not have to relearn it; that can be used specifically for extremely low rental housing.

Chairman SARBANES. Of course, that then runs counter to the effort to devolve a lot of this decisionmaking down to the local level, which was one of the arguments used for HOME when we put it into place. So it is a balance question.

Mr. HARVEY. Again, we strongly believe that there should be some Federal targets that are in it. But, then, within that, the local jurisdictions can say, great. We can use *x* amount as they are, for homeownership, *y* for rental, et cetera.

Chairman SARBANES. Senator Reed.

Senator REED. Thank you, Mr. Chairman.

Let me turn to the issue of the Section 8 reserves. Ms. Sard, as you might realize, in the appropriations process, we were compelled, or the Committee was compelled, to cut these reserves in half. And CBO has estimated that this will decrease voucher utilization, meaning that fewer families will be served by Section 8 programs. Do you agree with this assessment? And can you elaborate why fewer families would be served?

Ms. SARD. The question of whether fewer families would be served depends on how HUD chooses to administer the change that was made in the Appropriations Act. The score, the assumption of outlay savings, was based on the language in the House bill, which was incorporated in the final legislation.

However, the conference committee report has important language in it which directs HUD to ensure that agencies that need more than the 30 days of reserves in order to maintain voucher assistance to the authorized number of families, should get it.

If HUD indeed follows the direction of the conference committee and gives appropriate signals to housing agencies that they can

rely on that money being there, then I think that the CBO anticipation will not prove to be the case. And I hope that will happen and I certainly hope that this Committee will help ensure that HUD does that.

Senator REED. Thank you very much. Mr. Creager, can you comment on that?

Mr. CREAGER. I would like to elaborate because this a bread-and-butter issue for local administration of the program. We have appreciated the chance to work with Barbara Sard on this issue over the last couple of years. As you know, the reserve level is computed based on past practice, the prior-year experience. And there are two economic conditions that could adversely affect local agencies as they administer the program, which could cause them to dip into a second month of reserves.

One is if your market deteriorated to the point where your vacancy rates increased dramatically, your utilization rate could go up, which is great for consumers. If you are at 95 percent, you could quickly go to 100 percent. More consumers would find housing. And yet, your reserves are predicated on your past year's experience. So that would be an immediate fiscal impact on the local agency, which would be problematic.

The other example is a flip side of a soft economy. Voucher holders of course, are paying an affordable rent and if they lose their jobs, and many of our residents have moved from welfare to work rather recently, and therefore, are often the first to lose their jobs. In this instance their income falls rapidly, which means that the portion of Housing Assistance Payment (HAP) payment paid to their landlord goes up dramatically. And it can go up very quickly.

So the local housing authority is putting out more HAP payment than they have authority to do so and the local housing authority must dip into that second month of reserves to cover the shortfall.

What we would like to see is the access to that second month codified rather than just buried in report language some place. So that those agencies that do need it—those are two examples that I have given you, there would be other examples—would have access to it. That said, you need to know that I administer a Moving-To-Work (MTW) agency and we have been granted 2 months' reserves. So we are held harmless from this new rule. But I know that it will affect my colleagues.

Senator REED. Thank you very much.

Mr. Curtis, in the last few months, the new Administration is taking some action, first, with respect to the FHA multifamily program that was shut down in April essentially because of the lack of credit subsidy. This is one issue.

And the second issue is increasing insurance premiums in FHA programs from 50 to 80 basis points. When Secretary Weicher was here, he said that this would be good for the industry because it would provide predictability. Have these developments been good for the industry? What is your position?

Mr. CURTIS. No, I do not think we can say that it has been good for the industry. FHA has a tremendous product. And much like—well, any place with a tremendous product, when you have a demand for that product, but you have uneven ability to provide the product—and in this case, when the window closed, there were

some 50,000 units' worth of jobs financed to be left standing at the door. That is inconsistent and, as I said, that discourages participation in the program and it really affects the ability particularly to produce new housing.

There may be refinance sponsors who can afford to wait 6 months. But when you have your suppliers and contractors ready to go, they cannot hold their lumber prices for 6 months waiting for the window to open up again. So, the stop-and-start nature is a big problem. Fortunately, we think that it can be solved and it can be solved without the increase in the premium from 50 to 80 basis points.

As I said earlier, the increase in the premium is based on experience from the early 1980's, which is far different from what current models we think would show.

And Commissioner Weicher has been instructed and has agreed, which is now overdue, to study that issue and see what the appropriate level for a self-sufficient fund without the need for a credit subsidy would be. And we have every reason to believe that, with appropriate, up-to-date assumptions, that would be within the previous 50 basis points, and that we would not have to allocate credit subsidy and not have to play this red light/green light game.

So we think it is, again, just fundamentally important that that study is followed through and the results of that study are implemented before the 2003 budget because the 2002 budget is based on the 80 basis points, and if we are right, there is going to be a surplus. And we all know that surpluses do not necessarily get back into the production of housing.

Senator REED. Thank you. Final question to Mr. Creager.

Secretary Martinez justified his proposed $700 million cut in the public housing capital fund by claiming that an ABT & Associates report stated that the PHA's can only absorb $2.3 billion in capital funds per year. And then he argued that there was a huge backlog in capital funds as evidence of this problem.

This raises a few questions. In your view, is there a serious backlog problem in the capital fund with public housing authorities?

Mr. CREAGER. There is a backlog, but it was overestimated, and I think dramatically overestimated by the Secretary by including the fiscal year 2001 appropriations in his estimate, which had not been released yet by the Department. We did not have access to the money. We could not spend the money.

Mark Twain said you could use statistics like a lamppost—either for illumination or for support. And I think he was probably using it for support rather than illumination.

[Laughter.]

Senator REED. Well, the ABT report makes the point that there is a finite limit of absorption, which sounds like a scientific analysis. Funds totalling $2.3 billion annually, do you agree with that?

The more colloquial way to say it, if we gave public housing authorities more money to address capital issues, you could use more than $2.3?

Mr. CREAGER. Absolutely. I think it has been mischaracterized; hence, the comment about statistics. The ABT report does not say that local housing authorities can absorb only $2.3 billion a year.

It says that there is an accrual of need of $2 billion a year and that the backlog is $20 billion.

NAHRO is supporting an appropriation of $3.5 billion. And I believe very confidently that the capacity issues are being addressed. As I said, they were dramatically overestimated in the first place for political purposes, I think to make a point.

For many years, up until 3 years ago, most of the Nation's housing authorities, the mainstream housing authorities only had access to CIAP dollars, which were an on-again/off-again resource. You cannot do capital investment planning when your source of capitalization is subject to competitive rounds of grantsmanship, which it was until 3 years ago. It is now a consistent, predictable capital grant. And the larger housing authorities, such as Vancouver, are actually receiving less money in order to give something to all the other smaller housing authorities, which we accept.

Under QHWRA, you asked that we all do 1 and 5 year plans. And those 1 and 5 year plans are now fully dialed in, which identify exactly how those monies will be used. And we are now moving to the capital markets to create multiyear capitalization of those funds. So I am very confident that $3.5 billion can be fully justified and we would be happy to provide supplemental information to that effect for illumination, not for support.

Senator REED. Thank you. We all need a little support, too, occasionally. So, thanks.

[Laughter.]

Mr. Chairman.

Chairman SARBANES. Well, we had a sharp exchange with the Secretary about this. And we are going to have another sharp exchange with him. When we did the Public Housing Act in 1998, we brought you within a 4 year parameter, as I recall.

Is that correct? Getting this money and committing it. Because before, you had money that was hanging around in the pipeline over an extended period of time.

Now my understanding is that all the housing authorities are within the 4 year parameter. So now you come along and you say, well, we have this money backed up in the pipeline, so we will skip a year and we will not put any money in there. I mean, that was the proposal, because we have money already in there, so we do not, in a sense, really need it.

That completely undercuts the effort to assure a steady stream against which the public housing authorities could collateralize their public housing capital funding in order to raise a larger amount than the annual appropriation, in order to do these projects. Wasn't that the concept?

Mr. CREAGER. It is very counterproductive.

Chairman SARBANES. Could you develop that a little bit?

Mr. CREAGER. The Vancouver Housing Authority is very active in the securities markets and we are considered strong with a stable outlook by Standard & Poor's, one of the few housing authorities in the country with that designation. We are very proud of it.

And your reliability in the capital markets is key to your pricing of your bonds. And if you have unstable credit and unstable source of revenue to service that security, then you are going to pay a premium in the interest rate pricing.

I think the Secretary, perhaps unwittingly, undercut QHWRA by proposing that reduction. Believe me, the capital markets were in serious disarray this summer when it was heard. Standard & Poor's and Moody's took stock of it.

I think their general conclusion is that as long as you have never placed more than 25 percent of your annual appropriation as security for a specific bond issue, that you would be okay, giving you some headroom. That is not a signal for the Secretary to come back and propose a 75 percent cut to the capital grant, however.

So we do need this as a reliable tool. Using seismic repairs as an example, it is more efficient to have a contractor come into a building and do the seismic repairs all at once, rather than to spread them out over 3 years.

So we may choose to hold within that 4 year period of time an appropriation to the second year so we have enough money to engage the contractor once, instead of engaging and disengaging and paying the mobilization cost to the contractor and disrupting the tenants over an extended period of time.

Chairman SARBANES. Well, this has been an extremely helpful panel. We obviously could go on indefinitely. We will be looking to you for counsel and advice. We have great respect for the expertise that is reflected at the table.

Chairman SARBANES. Senator Allard, do you have anything further to discuss?

Senator ALLARD. No, Mr. Chairman. I would just like to thank the panel for their testimony. I found it very helpful.

Chairman SARBANES. We very much appreciate it. The hearing stands adjourned.

[Whereupon, at 12:15 p.m., the hearing was adjourned.]

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

PREPARED STATEMENT OF SENATOR PAUL S. SARBANES

Good morning. I want to thank the witnesses for joining us today to help us explore and examine the housing and community development needs of the American people and the communities in which they live.

Earlier this week, the President signed the HUD appropriations bill into law. This bill, despite the very strict limits within which the Committee was forced to work, was considerably better than the Administration's original request.

It is my sincere hope that the Administration will take into account the extent to which poor and even moderate-income working families are facing an affordable housing crisis in this Nation as they prepare their HUD budget for fiscal year 2003. HUD's own data show that nearly 5 million very low-income American families pay over half of their income in rent, or live in severely substandard housing.

A study by the National Housing Conference that looks at a broader sample, found that nearly 14 million families, including working families earning more than the median income, face such critical housing needs. In fact, while the number of worst case needs among poor families actually stabilized a bit, the number of working families carrying this severe burden has risen dramatically.

A recent Low-Income Housing Coalition study shows that two full-time minimum wage earners in a family is not sufficient in 33 States to rent a modest apartment paying 30 percent of a family's income—the level widely assumed to be a measure of affordability. These trends are not surprising. In the past decade, the number of units available to extremely low-income renters has dropped by 14 percent, a loss of almost a million units. Nationally, apartment vacancy rates have declined by 1.7 percentage points, making it more difficult for all renters to find an affordable place to live.

It is worth considering what it means to pay so much of one's income for housing, alone. It means uncertainty, insecurity, and, most likely, it means rootlessness. These families live one unexpected medical bill, one car repair, one bout of unemployment away from possible homelessness. As a result, many of them are forced to move from one apartment to another, or to move in with relatives or friends, just to keep a roof over their heads.

The children in these families will not be able to receive an adequate education. Their parents will not be able to take full advantage of job training offered to them, or other important services, until they have the kind of stability that affordable housing in a safe neighborhood can bring. In my view, housing is a first step to bringing many poor families and their children to economic self-sufficiency.

These statistics make it clear that, in developing its fiscal year 2003 budget for HUD, the Administration should seek to expand its aid to low-income families. Programs that help create a ladder of housing opportunity, such as the FHA multifamily program, must also be increased. Finally, homeownership assistance programs are, for many, the final rung on the ladder. With some Federal assistance, many American families can take this final step to reach the American Dream. The Administration did propose additional downpayment assistance last year; however, this would have come at the expense of other programs. It was not additional money.

We have a distinguished panel of witnesses with broad experience and expertise here this morning to discuss exactly what the housing needs in America are, and how we should go about meeting them.

PREPARED STATEMENT OF SENATOR JACK REED

I would like to thank Chairman Sarbanes for scheduling this hearing on our Nation's housing and community development needs and the fiscal year 2003 HUD budget. I also would like to thank all of the witnesses this morning for time and input.

America is rich in resources, talent, blessings, and promise. The hard work and ingenuity of men and women across the country has led us to take on and succeed at many monumental challenges. However, one challenge we have yet to conquer is decent, safe, and affordable housing. While we are the best-housed Nation in the world, 15 million low-income households pay too much for their housing, live in severely substandard housing, or are homeless. We have much more to do to reach our true potential as a Nation. In the absence of good housing, a family's ability to do all the other things society expects of it—parenting, employment, education—is clearly impaired.

Unfortunately, the recent National Low-Income Housing Coalition "Out of Reach" report shows that the gap between incomes and housing costs has grown in every

State during the past year. The number of States where people need an income equivalent to at least two full-time minimum wage jobs to afford modest rental housing has increased from 27 to 33 in the last year. In my State of Rhode Island, the wage to afford the fair market rent for a two-bedroom home is $12.87 an hour. This means that a worker earning minimum wage, which in Rhode Island is $6.15 an hour, would have to work 84 hours per week in order to afford a two-bedroom unit at the State's median fair market rent. No where in the country does the minimum wage work of one person come close to paying the rent. It would seem self-evident that if one goes to work every day and collects a regular paycheck, that should be enough to secure a reasonable place to live and take care of one's family.

As Chairman of the Subcommittee on Housing and Transportation, one of my priorities is to focus attention on this affordable housing crisis and the many factors that are contributing to it—including market failure and Federal disinvestment in housing assistance for low-income families. We need to consider creative solutions like a National Affordable Housing Trust.

We also need to focus on make our Nation's housing stock safe. No child in this country should have to live in a home that is hazardous to her health because of environmental hazards like lead-based paint.

Finally, we need to do more to prevent and end homelessness in this country. As most of you are all too aware, we have seen an increase in homelessness around the Nation—especially in the number of children and working families entering the homelessness system. Lack of affordable housing is only one piece in the puzzle. The McKinney-Vento Homeless Assistance Act was intended to be an emergency response to the "crisis" of homelessness. Instead, it increasingly appears that it is providing a safety net not only for those who are homeless, but also for people who are not being served adequately by mainstream housing and service programs. I hope to have hearing on this issue within the next few months.

In short, now is not the time to see another period of disinvestment by the Federal Government in housing. HUD was forced to sacrifice its budget during the Reagan Administration and it should not be asked to do so again, especially during a recession. In fact, a number of us believe that Federal spending on housing could play an important role in restoring the economy to health. By including funding in a stimulus package for programs like the Emergency Food and Shelter Program, the Public Housing Operating Fund, and HOME, we would help some of the Americans most vulnerable to the economic slowdown.

It is our hope today to focus on these issues and the growing importance of a strong fiscal year 2003 budget for HUD. Decent, safe, and affordable housing is not only the American Dream and the American Promise, it also needs to be the American Commitment.

PREPARED STATEMENT OF SENATOR JON S. CORZINE

Thank you Mr. Chairman, for holding this hearing. I also want to thank all of the witnesses for appearing here today to discuss the 2003 HUD budget and for offering their insights as to how we can best seek to provide American families with decent, safe, affordable housing.

Mr. Chairman, I share your commitment to this cause, and believe that one of our primary responsibilities on this Committee is to ensure that the Department of Housing and Urban Development is held to the highest standards as they seek to carry out this important mission. It is a responsibility that we must never abdicate or shy away from.

Maintaining an adequate supply of affordable housing and making it available to those who need it is of the utmost importance to our Nation. The need for affordable housing has been exacerbated given our current economic situation when more and more Americans face unemployment and our Nation stands in the midst of a recession which may be prolonged as a result of the effects of the September 11 attacks.

I have great concerns about cuts that were made in the HUD budget, in particular the elimination of the Public Housing Drug Elimination Program, a program that had been heralded as reducing crime in and around our Nation's public housing developments.

Additionally, I am concerned about the cuts made to programs that provide housing aid to the elderly, disabled, and low-income communities. I also look at the Community Development Block Grants as an important part of addressing the housing shortage. I have great concern about the cuts made to that program as well.

Mr. Chairman, it is my hope that as we look at the HUD budget for fiscal year 2003, the needs of American families will be the paramount consideration. If it is not, then we, and HUD, will have failed in our duties.

I look forward to the discussion today and to hearing the recommendations of our witnesses. Again, Mr. Chairman, I thank you for holding this hearing.

PREPARED STATEMENT OF SENATOR THOMAS R. CARPER

Thank you Mr. Chairman for holding this important hearing. I would like to thank Dave Curtis for appearing before the panel today and sharing his expertise with us. Mr. Curtis is well known for his knowledge on a wide array of financing and development programs including those offered by HUD, Housing Finance Agencies and GSE's. He recently led the successful effort to secure a $16,800,000 HOPE VI grant to assist in the revitalization of Wilmington's oldest public housing community. I am proud to have such an accomplished Delawarean appearing before the Committee. I would also like to thank the other witnesses for coming today and sharing their views and their expertise with the Committee. I look forward to all of the testimony.

Last week, I toured the various homes built by the Cornerstone West project in Wilmington. The Cornerstone West project revitalizes homes on Wilmington's West Side for low- and moderate-income first-time homebuyers and I was really impressed by what I saw. One of the persistent problems we have had in Wilmington, and I am sure we are not alone, is boarded up housing, vacant units, a preponderance of rental units instead of owner-occupied housing, as well as long waiting lists for assisted housing. Cornerstone is one project that is tackling these problems. I am sure there are similar projects in other cities, and Congress should ensure that it provides successful projects and programs with the funds they need to make housing more affordable.

It is clear that there is a lack of affordable housing in the United States. Currently, there are nearly 5 million very low-income households with worst case housing needs; about 94 percent of these families pay more than half of their income in rent each month. To address this shortage we have to find the best use of every dollar at our disposal, as well as the most effective use of existing Federal programs to stimulate new production and substantial rehabilitation.

That is why I joined Senator Corzine in sponsoring legislation increasing the FHA multifamily loan limits. I was pleased that this increase passed as part of the VA/HUD appropriations legislation, although I was disappointed that it did not include the indexation that Senator Corzine and I had in our bill.

I look forward to working with my colleagues on other initiatives that address the affordable housing crisis in our communities.

TESTIMONY OF BARBARA SARD
Director of Housing Policy, Center on Budget and Policy Priorities
Before the
Senate Committee on Banking, Housing and Urban Affairs
Hearing on Housing and Community Development Needs: The FY 2003 HUD Budget
November 29, 2001

I appreciate the invitation to testify today. I am Barbara Sard, director of housing policy for the Center on Budget and Policy Priorities. The Center is a nonprofit policy institute in Washington that specializes both in fiscal policy and in programs and policies affecting low- and moderate-income families.

My testimony today addresses the importance of adequate funding for housing vouchers in the Administration's proposed budget for the Department of Housing and Urban Development for fiscal year 2003. First, I review recent data on housing needs, and the role of housing vouchers in particular in meeting these needs. The second part of my testimony highlights recent research results on the role of housing assistance — particularly mobile vouchers — in supporting welfare reform and education reform goals. Finally, I address voucher-related budget priorities for fiscal year 2003.

The Need for Additional Housing Vouchers

Despite their increased involvement in the labor market, millions of poor and near-poor families remain unable to afford decent housing.

- The most recent data from the American Housing Survey show that in 1999, some 4.9 million very low-income renter households that did not receive housing assistance paid more than half of their income for rent and utilities or lived in severely substandard housing (HUD 2001). These are the households that HUD defines as having "worst case" housing needs. (Very low-income households have incomes at or below 50 percent of the area median income.) Most households

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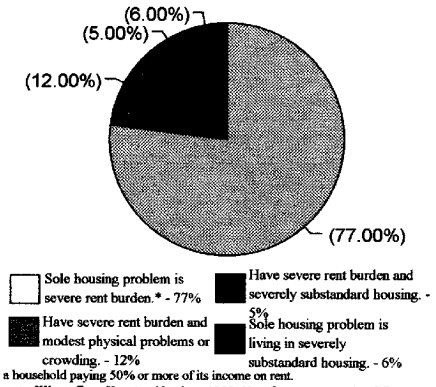
with worst case housing needs that are not elderly or disabled are working households. Specifically, some 80 percent of households with worst case housing needs in 1999 that had an adult who was not elderly or disabled relied on earnings as their primary source of income.

- For more than three-fourths of the households with worst case housing needs, their problem is that they pay more than half of their income for housing. (See Figure 1.) Housing vouchers can directly mitigate this affordability problem. The approximately 3.6 million households with worst case housing needs that do not live in crowded or non-repairable substandard housing may be able to use housing vouchers in their current housing to reduce their housing costs to 30 percent to 40 percent of their income, enabling them to meet other basic needs. Alternatively, they could use housing vouchers to move to other units.

Figure 1.
Affordability is the Primary Housing Problem
Types of Housing Problems of 4.9 Million Unsubsidized Renter Households with Incomes Below 50% of the Area Median Income

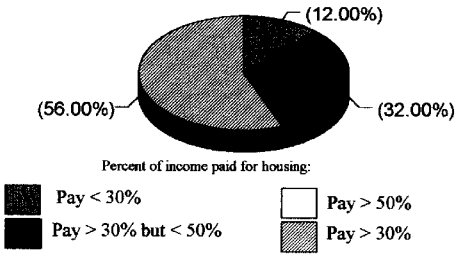


* Severe rent burden is defined as a household paying 50% or more of its income on rent.
Source: Based on data from *A Report of Worst Case Housing Needs in 1999: New Opportunities Amid Continuing Challenges*, HUD, 2001.

- Having a job is not sufficient to lift families with children out of poverty and ensure that they can afford decent housing. In 1999, a higher proportion of households with worst case housing needs were working than in 1997. Among poor families with children who are unsubsidized renters with at least quarter-time, year-round minimum-wage earnings, some 88 percent paid more than 30 percent of their income for housing in 1999. (This is the federal standard of housing affordability established in the Reagan era.) A majority of these families (56 percent) spent

more than half of their income on housing in 1999. See Figure 2.

Figure 2. Working Poor Families with Children*: Most Pay Too Much for Housing in 1999



Source: American Housing Survey, (1999) and additional calculations by Cushing Dolbeare and the Center on Budget and Policy Priorities.

- On average, a family must earn at least $13.87 per hour of full-time work — about $28,000 per year — to afford a two-bedroom housing unit at the Fair Market Rent.[1] In no county, metropolitan area, or state does a family earning the equivalent of full-time employment at the minimum wage have enough income to pay the Fair Market Rent for housing with one or more bedrooms without spending more than 30 percent of income for rent and utilities (NLIHC 2001).

Renter households with incomes below 30 percent of the area median income — roughly equivalent to the poverty line — have by far the greatest incidence of acute housing problems. Over two-thirds (68 percent) of these extremely low-income renter households without housing assistance had worst case housing needs in 1999. Another 20 percent had other less serious housing problems, such as paying 31 percent to 50 percent of their income for rent or living in crowded housing or housing with moderate physical problems.

By contrast, 22 percent of renter households that had incomes between 31 percent and 50

[1] The housing cost used in this calculation ($720 per month) is the estimated median FY 2002 two-bedroom national Fair Market Rent calculated by the National Low Income Housing Coalition, *Out of Reach, 2001*. It is based on HUD's proposed 2002 FMRs weighted by the number of renter households reported by the 2000 Census.

percent of the area median income and received no housing assistance experienced severe housing problems. Fewer than 5 percent of households with incomes between 51 percent and 80 percent of AMI faced these problems. (Nelson, 2001.)

Exacerbating this situation, the number of private units affordable to extremely low-income renter households that receive no housing assistance dropped by more than 200,000 between 1997 and 1999 due to rent increases as well as continuing abandonment of unprofitable rental housing (Joint Center for Housing Studies 2001).[2] Changes in the housing market also have reduced the number of housing units potentially available to families that do have housing assistance in the form of Section 8 vouchers, highlighting the need for new housing production resources. Between 1997 and 1999, the number of units with rents below the HUD-determined Fair Market Rent (FMR) dropped significantly. Vacancy rates for units renting at or below the applicable FMR fell in every region except the Midwest (HUD 2001).

In all regions, the units in shortest supply were those with three or more bedrooms and rents below FMR, making the search for housing particularly difficult for voucher holders with three or more children. In every region, suburbs had the fewest vacancies in units renting below the FMR (*Id.*).[3] These are the areas that are most likely to have the greatest job growth. It is

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[2] This figure may include the affordable units lost due to demolition or abandonment, but not units that are still part of the housing stock but are no longer affordable to extremely low-income families. HUD estimates the total loss between 1997 and 1999 in the number of units affordable to extremely low-income families may have been twice as great as the Joint Center's report indicates.

[3] The Fair Market Rent, determined annually by HUD, generally is equivalent to the rent for the bottom 40 percent of non-luxury units available for rent in the prior two years. HUD's analysis assumed that units were potentially available to families with vouchers if the charge for rent and utilities was below the 1995 FMR set at the 40th percentile, adjusted for inflation to 1999. Under the rules of the new merged voucher program that began in 1999, however, families can rent units above the FMR so long as their share of the cost does not exceed 40 percent of their income. In addition, PHAs are allowed to increase their maximum payment to 110 percent of the FMR. In January 2001, HUD increased the FMR in 39 metropolitan areas to cover half of the rental units (50th

important that a substantial share of additional production of rental housing take place in these areas.

Housing vouchers are an essential component of any housing strategy to remedy the problems of extremely low-income renters. Of the many types of federal housing assistance, only housing vouchers are primarily targeted on extremely low-income households: 75 percent of vouchers issued each year must go to extremely low-income applicants. In addition, vouchers generally are necessary to make housing produced through the Low Income Housing Tax Credit (LIHTC) and HOME programs affordable to extremely low-income households. New subsidized rental housing constructed or rehabilitated through these programs is generally affordable to households with incomes below 45 percent of area median income only if they have other subsidies.

In 1999, some 40 percent of the households renting units produced through the LIHTC program had incomes below 30 percent of the area median, but a majority of these households (62 percent) used Section 8 subsidies (tenant-based or project-based) to afford the rent (Buron *et al.* 2000). A more recent HUD study found that while nearly half of all HOME-funded rental units house extremely low-income households, those households in this category who lack rental assistance paid an average of 69 percent of income for rent (Herbert *et al.* 2001). What makes this of particular concern is that nearly half of extremely low-income households residing in HOME-funded units lacked rental assistance (*Id.*).

Using housing vouchers to provide the subsidy that extremely low-income households usually need to afford even subsidized newly-produced housing has the advantage of enabling

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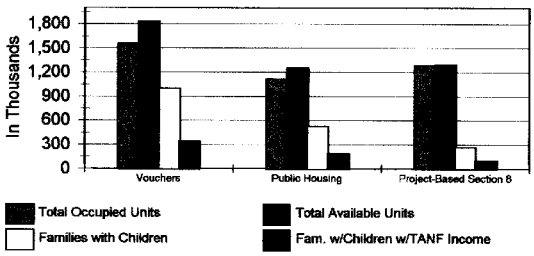
percentile).

families to move when necessary for employment or family reasons without having to give up their housing subsidy. This flexibility of housing vouchers is retained by the new project-based component of the housing voucher program (Sard 2001). Also, vouchers now can be used for homeownership.

Housing Vouchers Support Welfare and Educational Reform Goals

Various studies indicate that the mobility feature of vouchers, in addition to the guarantee of increased housing affordability, may result in a number of beneficial outcomes for both parents and children. Housing vouchers are the leading source of federal housing assistance for low-income families with children. Two-thirds of vouchers issued in any year go to families with children, with the remainder predominantly used by people with disabilities and elderly people. Nearly one million families with children are currently served by the voucher program, almost twice the number of families with children that live in public housing. See Figure 3.

Figure 3. Demographics of Major Federal Housing Programs, by Program Type



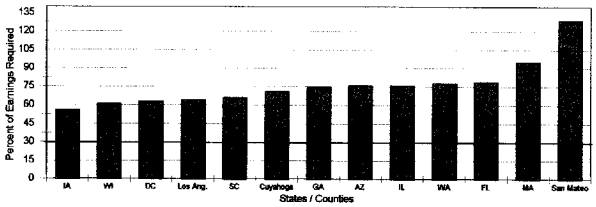
* The data on occupied units and the percent of occupied units occupied by families with children are based on the Resident Characteristics summaries for each program from May 2001 posted by HUD at http://www.hud.gov/mtcs/public/guest.cfm. The number of public housing and project-based Section 8 units is adjusted based on conversations with HUD PD&R staff.
**The percent of families with children with TANF income is calculated by the Center on Budget and Policy Priorities based on May 2001 U.S. Department of Housing and Urban Development administrative data.

Welfare Families That Go to Work Typically Do Not Earn Enough to Afford Housing

Most families that leave welfare for work do not earn enough to afford decent-quality housing. Recent data indicate that the average total monthly income of households that

previously received welfare benefits and have at least one working member is $1,261 (in 2002 dollars). This typical welfare leaver family must pay 57 percent of its total income for decent, modest housing.[4] Because housing costs vary so dramatically across the country, it is important to look at state and local data on the ability of welfare leavers to afford housing. In the 14 jurisdictions with HHS-financed studies on the earnings of recent welfare leavers, modest housing costs would consume 52 percent to 129 percent of estimated monthly earnings.[5] See Figure 4 and Appendix 1.

Figure 4. Estimated Percent of Earnings Required for Welfare Leavers to Afford a Modest 2-Bedroom Unit*



*See Appendix 1 for supporting data.

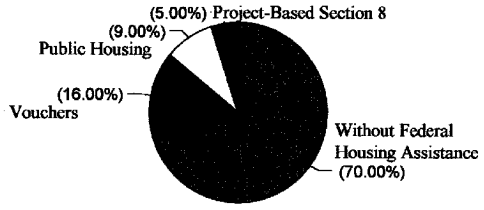
[4] The median total income of leaver households is based on 1999 data from the National Survey of American Families, adjusted for inflation to 2002, and includes earnings and benefits for all household members in households with at least one employed member. See Loprest 2001. For the rent calculation, see note 1.

[5] These percentages are based on median wages of employed welfare leavers, derived from median quarterly earnings in the last quarter of the first year after leaving welfare as reported in ASPE-financed studies, found at http://aspe.os.dhhs.gov/hsp/welf-ref-outcomes01/appb.htm, adjusted for inflation to 2002, compared with the 2002 State FMRs as calculated in NLIHC 2001, (see note 1 above). The calculations assume that families pay no more than 30 percent of income for rent and have no income other than the earnings of the welfare leaver. The State FMRs published by NLIHC are updated to reflect final FMRs.

While some states provide significant TANF supplements for families with low earnings, the combination of work and welfare generally does not provide families with sufficient income to obtain decent housing that costs less than half their income. The data in Appendix 2 illustrate the benefits available to working mothers with two children earning $500 and $1,000 per month, respectively, in Colorado, Maryland, Rhode Island, and Texas, and compares the families' total income (including food stamps) to the cost of modest housing. Because Rhode Island has the most generous TANF benefits and the second lowest housing costs of the four states, as well as a fairly generous policy on supplementing low earnings with TANF benefits, families with low earnings ($500 per month) in Rhode Island are better able to afford housing than families in the other states. Even so, a Rhode Island family of three with $500 in earnings would still have to pay 58 percent of its income, including food stamps, for modest housing.

Nationally, only about 30 percent of families that receive TANF benefits have federal housing subsidies to help them afford their rent. Slightly more than half of the families that receive both TANF benefits and federal housing assistance have housing vouchers. See Figure 5. The percentage of TANF families with housing assistance varies in each state from about 12 percent to 50 percent.

Figure 5. Distribution of TANF Recipients by Type of Housing Assistance*



* State and local housing assistance data unavailable.
Source: Center on Budget and Policy Priorities calculation based on May 2001 U.S. Department of Housing and Urban Development administative data and March 2001 U.S. Department of Health and Human Services U.S. Welfare Caseload Information.

High housing costs can leave families with insufficient

remaining income for basic necessities or to pay for child care, clothing for work, transportation, and other expenses that often must be met for families to move from welfare to work. In addition, families that pay too much of their income for housing or live in severely inadequate or overcrowded housing may have to move frequently. Such moves may interrupt work schedules, jeopardize employment, and adversely affect children's educational progress. A recent study in Ohio found that 42 percent of families that had recently left welfare and paid more than half of their income for housing moved in the six-month period after leaving welfare. In contrast, roughly eight percent of the general population moves in a six-month period (Coulton 2001).

Conversely, lack of housing subsidies or other assistance can prevent families from making moves that could improve their economic prospects, such as moves to areas with greater employment opportunities or areas where parents feel safe enough to go to work and leave older children unattended or to return from work at night on public transportation. According to a survey of 77 metropolitan areas, more than 80 percent of newly-created, low-skill jobs in the early 1990s were created in the suburbs (HUD 1997). While relative job growth in cities improved somewhat later in the decade, about two-thirds of new retail and service sector jobs were still being created in the suburbs. In addition, manufacturing jobs increased in the suburbs during the 1990s, while decreasing in cities (HUD 2000). These newly-created jobs often are inaccessible to welfare recipients and working poor families living in central cities or rural areas.

Housing Vouchers Can Promote Employment and Decrease Welfare Use

Not surprisingly in light of these data on housing unaffordability and the mismatch between where many low-income families live and where jobs are increasing at the fastest rate, studies have found that families with vouchers work more hours and have higher earnings than

similar families without housing assistance or with other forms of housing assistance (Ong 1998). There also is evidence that using vouchers to move to low-poverty areas increases employment and reduces welfare receipt. In the Gautreaux program in Chicago, families that used vouchers to move to the suburbs had an employment rate of 64 percent, while comparable families that used vouchers to move to other city neighborhoods had an employment rate of only 51 percent (Rosenbaum 1995). In addition, families that used vouchers to move to neighborhoods with more educated residents substantially reduced their incidence of welfare receipt (Rosenbaum and DeLuca 2000).

It is not yet clear whether the apparent employment impacts of the Gautreaux program will be replicated in the Moving to Opportunity (MTO) Demonstration. Evidence from the Baltimore site does indicate that public housing households targeted to receive housing vouchers as well as counseling to help them move to low-poverty census tracts were significantly more likely to exit welfare than families that did not have these opportunities. The reduction in the rate of welfare receipt appeared to be due largely to increases in employment and earnings.[6]

Affordable housing also may enhance welfare reform efforts. Research increasingly suggests that vouchers and other government housing subsidies can promote work among long-term welfare recipients when combined with a well-designed welfare reform program. Of particular note is the recently released evaluation of the Minnesota Family Investment Program

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[6] See Ludwig *et al.* 2000. On average, the proportion of families assigned to receive vouchers restricted to use in low-poverty areas that received welfare assistance during any quarter in the three-year follow-up period was 15 percent (six percentage points) lower than the proportion of families not given the opportunity to move out of public housing that received welfare assistance during this period. Furthermore, among families that actually moved to low-poverty neighborhoods, the reduction in welfare receipt was more substantial. The share of families that received welfare benefits in year three after moving to low-poverty neighborhoods was over one-third less than the share of families assigned to the public housing control group that received such benefits.

(MFIP) by the Manpower Demonstration Research Corporation. This evaluation is particularly significant because, taken as a whole, the gains it found — including reductions in poverty, increases in employment and earnings, and even increases in marriage — are among the strongest ever documented for a welfare reform undertaking in the United States.

Most of MFIP's success was due to the substantial increases in employment and earnings it generated among families receiving housing assistance (primarily Section 8 vouchers); families without housing assistance had little or no gains. This is one of a growing number of studies that find significantly greater welfare reform effects among families with housing vouchers (and sometimes other forms of housing assistance) than among other low-income families, suggesting that housing assistance may enhance the effects of welfare reform strategies in promoting employment (CBPP 2000; Miller *et al.* 2000); Sard and Lubell 2000).

Vouchers May Help Produce Positive Outcomes for Children

The results from both the Gautreaux program and the first few years of the Moving to Opportunity demonstration also lead to the tentative conclusion that housing vouchers can improve the life chances of a large number of poor children living in neighborhoods of concentrated poverty when they are used to help families move to less poor neighborhoods (Duncan and Ludwig 2000). The most notable results of Gautreaux probably were the effects on children's education and employment. The children of families that used vouchers to move to the suburbs were less likely to drop out of high school (5 percent versus 20 percent) and more likely to go to college (54 percent versus 21 percent) than children of families that used vouchers in city neighborhoods. Among the Gautreaux youth not attending college, a significantly higher

proportion of the suburban youth had full-time jobs than city youth (75 versus 41 percent) (Rosenbaum 1995).

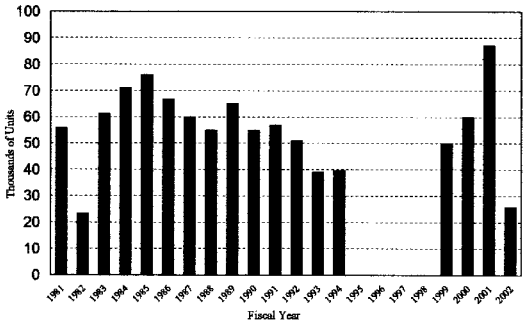
Only the Baltimore MTO site has yet reported education data, and the results are striking. Children in elementary school who moved out of inner city public housing to low-poverty areas experienced twice as large a gain in reading and math scores as did children whose families used vouchers in higher poverty neighborhoods (Ludwig, Duncan and Ladd 2001). Early MTO results also indicate positive effects of moving to low-poverty neighborhoods on children's behavior, criminal involvement, and health and safety. Several sites found markedly reduced rates of criminal or problem behavior among adolescent males in families that received vouchers to move to low-poverty neighborhoods compared with those that remained in public housing or used vouchers in high-poverty neighborhoods. Children of families who received assistance in moving to low-poverty neighborhoods also were less likely to experience serious asthma attacks or be the victim of violent crime (Duncan and Ludwig 2000; Katz, Kling and Liebman 2001; Kling, Liebman, and Katz 2001).

Voucher-Related Budget Priorities for FY 2003

The current shortage of affordable housing and the critical link between housing and welfare and education reform underscore the need for additional funds for housing vouchers and for production of new rental housing. The fact that millions of families are paying a disproportionate share of their income on rent or are living in substandard housing should signal that significant investments in low-income housing programs are overdue. Failure to make such investments will only exacerbate this problem.

For fiscal year 2002, Congress appropriated funds for 70 percent fewer new vouchers than the number of new vouchers that it provided funds for in fiscal year 2001. (The Administration requested funding for 34,000 new vouchers for fiscal year 2002; 25,900 were funded.) While better than the drought years of 1995-1998 when no incremental vouchers were issued, this recent action is a step backwards from the three previous years, when a total of more than 190,000 new vouchers were funded. Indeed, the number of new vouchers funded in FY 2002 is the lowest under a Republican President since the first budget of the Reagan Administration. See Figure 6.

Figure 6. Incremental Units of Section 8 Tenant-Based Rental Assistance, 1981-2002



Source: Based on data from Section 8 Tenant-Based Assistance: A Look Back After 30 Years, March 2000, U.S. Department of Housing and Urban Development, supplemented by the Center on Budget and Policy Priorities.

The Need for Additional Budget Authority to Renew Expiring Section 8 Contracts

For a number of reasons, maintaining housing assistance for the current number of authorized households requires additional budget authority and outlays in FY 2003. We estimate that the renewal of Section 8 contracts that are due to expire in FY 2003 — for both tenant-based and project-based assistance — will require approximately $1.8 billion in additional budget authority in the Housing Certificate Fund for FY 2003 compared with the final FY 2002 VA-HUD appropriations act. This estimate is based on the Congressional Budget Office's most

recent baseline for FY 2003 issued this August (indicating that about $1.1 billion in additional budget authority is needed in fiscal year 2003 due to the expiration of multi-year contracts), with adjustments in light of the final FY 2002 appropriations for the Housing Certificate Fund. The adjustments reflect the estimated cost of renewing the 25,900 incremental vouchers newly funded by Congress in FY 2002 (approximately $106 million), plus the need for an additional $640 million in budget authority in lieu of the budget authority that in FY 2002 was derived from the one-time reduction in Section 8 reserves.

Incremental Vouchers

For fiscal year 2003 we should increase the number of new vouchers substantially to alleviate a portion of the serious unmet needs detailed above. An increase in housing vouchers is made more essential by the current recession, which is likely to increase the number of families in acute need of housing assistance. Already there are numerous stories of the recent increase in the number of homeless families and individuals as the economy has worsened, without a commensurate decrease in housing costs (De La Cruz 2001; Hoge 2001; Ojito 2001; Rowland 2001).

In addition, as a companion effort to the reauthorization of the TANF block grant in 2002, additional welfare-to-work vouchers should be funded. In FY 1999, Congress appropriated funds for 50,000 new vouchers for families that were receiving TANF benefits or had received TANF benefits within the prior two years, and for whom lack of affordable housing or housing location was a barrier to work. To qualify to administer these specially-targeted vouchers, PHAs had to show that welfare and workforce investment agencies would collaborate with them on program implementation. Initial experience with this program shows the benefits of such targeted housing

assistance and inter-agency collaboration. HUD expects to publish an analysis of interim results in the summer of 2002.

Improving the Voucher Program

Appropriations for the voucher program for fiscal year 2003 need to be adequate to fund improvements in the program that are needed to enhance its effectiveness in difficult housing markets. In particular, sufficient funds should be available to enable public housing agencies (PHAs) to increase the maximum voucher payment to improve families' chances of finding suitable units, particularly in low-poverty neighborhoods.

Under current policies, PHAs are permitted to set the voucher payment standard between 90 percent and 110 percent of the applicable HUD-determined Fair Market Rent. To set the payment standard above 110 percent of FMR, a PHA must obtain HUD approval. So that PHAs do not have to compensate for increases in the voucher payment standard by reducing the number of families they serve, PHAs are permitted to draw on reserves. The FY 2002 appropriations act made an overall reduction in PHA reserve funds, while directing HUD to provide sufficient reserves to PHAs that need them. Appropriations must be adequate for this policy to be continued.

In addition, voucher utilization could be improved substantially if the top of PHAs' discretionary range were increased to 120 percent of FMR. Improving voucher utilization — that is, increasing the percentage of voucher funds used by PHAs to provide rental subsidies — is necessary to realize Congress' intent that the voucher program provide housing assistance to more than 1.8 million households. (Approximately 1.6 million households are currently served.)

Increasing the top of PHAs' discretionary range to 120 percent of FMR requires a statutory change, as well as additional budget authority. Some increase is outlays is likely to result if such a change is enacted. However, only PHAs already at the maximum payment standard allowed without HUD approval — 110 percent of FMR — would be likely to take advantage of this new authority. (When HUD surveyed PHAs in the first half of 2000, about 20 percent set their voucher payment standard at 110 percent of FMR.

Families' success in obtaining housing with vouchers, particularly in low-poverty neighborhoods, is enhanced when PHAs undertake special outreach efforts to landlords and provide services and benefits to help families search for housing more effectively. Appropriations in fiscal year 2003 need to be sufficient to make additional funds available for these activities to PHAs that use all of their voucher program funds but have unacceptably low rates of families issued vouchers that succeed in using them or an over-concentration of voucher families in a particular geographic area. In addition, PHAs that are not able to use all of their voucher program funds due to difficult market conditions need to be permitted to convert a portion of unused funds to help families search for housing. While HUD has indicated several times that it favors such a policy, it has never issued guidance to PHAs concerning converting a portion of voucher funds for housing search-related administrative expenses.

Adequate funds need to be included within the amount requested for the Housing Certificate Fund for training and technical assistance to PHAs to improve voucher utilization and otherwise improve program performance, as well as to undertake additional rent surveys to set more accurate Fair Market Rents. In the fiscal year 2002 appropriations act, Congress set aside $10 million within the Public Housing Capital Fund for technical assistance to troubled agencies.

While this funding is important, some agencies that have adequate overall performance still could benefit from technical assistance directed specifically toward improving voucher utilization. HUD should have sufficient funds available for this purpose, as well as for additional rent surveys needed to set accurate fair market rent levels.

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Appendix 1

States / Counties	Median Wages of Employed Welfare Leavers* Annual / Monthly	2002 FMR for 2 bedroom unit**	Amount Family Can Afford to Pay for Rent and Utilities***	Percent of Earnings Required to Obtain Housing at FMR
Arizona	$11,255 / $938	$712	$281	76%
Florida	$10,605 / $884	$694	$265	79%
Georgia	$11,044 / $920	$687	$276	75%
Illinois	$12,192 / $1,016	$776	$305	76%
Iowa	$10,600 / $883	$499	$265	56%
Massachusetts	$13,056 / $1,088	$1,033	$326	95%
Missouri	$11,805 / $984	$508	$295	52%
South Carolina	$9,630 / $803	$532	$241	66%
Washington	$11,192 / $933	$728	$280	78%
Wisconsin	$11,481 / $957	$585	$287	61%
D.C.	$17,911 / $1,493	$943	$448	63%
Cuyahoga, OH	$12,344 / $1,029	$726	$309	71%
Los Angeles , CA	$15,321 / $1,277	$823	$383	64%
San Mateo, CA	$16,189 / $1,349	$1,747	$405	129%

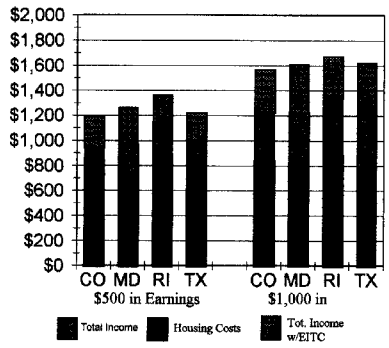
* Based on median wages of employed welfare leavers (with the exception of Arizona and Georgia, for which quarterly earnings are mean, median earnings would be somewhat lower), derived from annualized median earnings in last available quarter in first year after leaving welfare in ASPE-financed studies as found at http://aspe.os.dhhs.gov/hsp/welf-ref-outcomes01/appb.htm, inflated to 2002. Assumes families have no additional income.

** FMR, or Fair Market Rent, is calculated annually by HUD using telephone surveys and American Housing Survey and Consumer Price Index data. It typically represents the 40th percentile rent paid by recent movers for a non-luxury unit with a specified number of bedrooms in a metropolitan area or non-metropolitan county. The 2002 State FMRs are a weighted average of the FMR areas within a state based on the number of renter households reported by the 2000 Census, as calculated by the National Low Income Housing Coalition, *Out of Reach 2001*. While the State FMRs as published are based on proposed FMRs, the above numbers are updated to reflect final FMRs.

***Based on federal standard that affordable housing costs no more than 30 percent of a family's income. Assumes families have no additional income.

Appendix 2. Effects of Earnings and Benefit Receipt on Ability to Afford Housing in Colorado, Maryland, Rhode Island, and Texas

	WITHOUT EARNED INCOME TAX CREDIT (EITC)							WITH ETIC			
STATE	EARNINGS	TANF	FOOD STAMPS	TOTAL MONTHLY INCOME	30% OF MONTHLY INCOME**	2 BR FAIR MARKET RENT***	% OF TOTAL INCOME NEEDED FOR RENT	EITC ANNUAL / PER MONTH****	TOTAL MONTHLY INCOME W/EITC	30% OF INCOME W/EITC	% OF TOTAL INCOME NEEDED FOR RENT
CO	$500	$103	$351	$954	$286	$792	83%	$2,640	$1,174	$352	67%
MD	$500	$114	$348	$962	$289	$773	80%	$2,784	$1,194	$358	65%
RI	$500	$389	$261	$1,150	$345	$669	58%	$2,400	$1,350	$405	50%
TX	$500	$169	$331	$1,000	$300	$653	65%	$2,400	$1,200	$360	54%
CO	$1,000	$0	$230	$1,230	$369	$792	64%	$4,554	$1,610	$483	49%
MD	$1,000	$0	$229	$1,229	$369	$773	63%	$4,758	$1,626	$488	48%
RI	$1,000	$139	$207	$1,346	$404	$669	50%	$4,140	$1,691	$507	40%
TX	$1,000	$119	$176	$1,295	$389	$653	50%	$4,140	$1,640	$492	40%



* Based on a 3-person family consisting of a parent and two children.

** Based on federal standard that affordable housing costs no more than 30 percent of a family's income.

*** Fair Market Rent (FMR) is calculated annually by HUD using telephone surveys and American Housing Survey and Consumer Price Index data. It typically represents the 40th percentile rent paid by recent movers for a non-luxury unit with a specified number of bedrooms in a metropolitan area or non-metropolitan county. State FMRs are a weighted average of the FMR areas within a state based on the number of renter households reported by the 2000 Census, as calculated by the National Low Income Housing Coalition, *Out of Reach*, 2001.

**** The Earned Income Tax Credit (EITC), is received annually, and is thus not available as part of a family's monthly budget. To the extent, however, that the EITC helps meet consumption needs, it may be no different from other types of income subsidies in terms of its impact on recipients' expenditure patterns. Recent research has indicated that generally, families who receive the EITC use a portion of the funds to cover utility and rent costs. See Timothy M. Smeeding, Katherin Ross Phillips, and Michael O'Connor, *The EITC: Expectation, Knowledge, Use, and Economic and Social Mobility*, National Tax Journal, Vol. LIII, No. 4, Part 2.

PREPARED STATEMENT OF RAYMOND A. SKINNER

SECRETARY OF HOUSING AND COMMUNITY DEVELOPMENT, THE STATE OF MARYLAND
TESTIFYING ON BEHALF OF
THE NATIONAL COUNCIL OF STATE HOUSING AGENCIES

NOVEMBER 29, 2001

Mr. Chairman, Senator Gramm, and Members of the Committee, I am Raymond Skinner, Secretary of the Maryland Department of Housing and Community Development. I am testifying today on behalf of the National Council of State Housing Agencies (NCSHA), which represents the Housing Finance Agencies (HFA's) of the 50 States, the District of Columbia, the Commonwealth of Puerto Rico, and the U.S. Virgin Islands.

First, I want to thank you, Mr. Chairman, and the many other Members of this Committee who cosponsored and helped enact legislation last year to increase substantially the caps on tax-exempt private activity bonds (Bonds) and the Low-Income Housing Tax Credit (Housing Credit) and index them for future inflation. With this increased authority, tens of thousands of additional low-income families each year will buy their first home or rent a decent, affordable apartment.

Unfortunately, even with these increases, many people qualified to receive Bond and Housing Credit help still do not get it. Three obsolete Federal requirements prevent it:

- The Ten-Year Rule, which forbids States to recycle billions of dollars in Mortgage Revenue Bond (MRB) loan payments to make new MRB mortgages;
- Artificially low MRB home price limits, based on eight-year-old home sales data, despite a 40 percent increase in home prices in the last 8 years; and
- Inflexible Housing Credit income and rent rules, which often make development infeasible in very low-income, frequently rural, areas.

Senators John Breaux and Orrin Hatch have introduced S. 677, the Housing Bond and Credit Modernization and Fairness Act of 2001, to fix these problems. Forty-seven Senators already have cosponsored that bill. More than half of all House Members have cosponsored an identical House bill, H.R. 951.

The National Governors Association and nearly 20 other major State and local government, public finance, and housing groups have endorsed this legislation, including the National Association of Home Builders, the National Association of Realtors, the Mortgage Bankers Association of America, The Bond Market Association, the U.S. Conference of Mayors, the National Association of Counties, and the National Association of Housing and Redevelopment Officials. Twenty-four governors believe so strongly in the importance of this legislation, they have personally written the President, the Congressional leadership, or their own Congressional delegations to urge its immediate enactment.

Thank you, Senator Allard and the many other Members of the Committee who have cosponsored S. 677. We urge all Senators to cosponsor S. 677 soon and to press your leadership and Finance Committee colleagues to include it in a tax bill at the earliest possible opportunity.

Federal Housing Investment Is Woefully Insufficient

Congress did much more than increase the Bond and Housing Credit caps last year. You also recognized the need to adjust those caps annually for inflation, so they would never again be robbed of their purchasing power as they were over the past 14 years.

Regrettably, Congress has made no similar provision for Federal housing spending programs. Today's HUD budget is a third of what it would have been had it kept pace with inflation since 1976. Had the HUD budget been increased even just to keep up with inflation over the past 27 years, the Federal Government would have invested $1 trillion more in affordable housing and millions more needy families would have received housing help.

The HUD budget has remained relatively flat in nominal terms over the last 27 years, barely growing from $29.2 billion in 1976 to $30 billion in 2002, and losing nearly two-thirds of its purchasing power. During the same period, total Federal discretionary budget authority has grown from $194 billion to $635 billion, a three-fold increase, narrowly outstripping inflation.

Although created little more than a decade ago, the HOME program dramatically illustrates the toll inflation has taken on Federal housing funding. Congress authorized HOME at $2 billion in 1992, because it believed that amount was necessary for HOME to accomplish its housing production goals. However, Congress appropriated only $1.5 billion for HOME in 1992 and has funded HOME since below its authorized level, at amounts steadily outpaced by inflation.

If Congress had funded HOME at its authorized level of $2 billion and adjusted that amount annually for inflation, HOME today would provide nearly $3 billion to States and localities, more than 1½ times the $1.85 billion Congress just appropriated. Even if HOME's original $1.5 billion appropriation had been increased annually just to account for inflation, HOME funding by now would have reached $2 billion.

The Federal housing funding shortage is exacerbated by the increased diversion of resources to maintenance of effort activities. More than half of the fiscal year 2002 HUD appropriation will be devoted to renewing rental assistance contracts and preserving existing assisted housing. By comparison, virtually none of HUD's budget in 1976 funded such activities.

Though these investments are crucial to the continued provision of tenant rental assistance and the preservation of our precious and scarce affordable housing stock, Congress must recognize that these activities crowd out funding for new affordable housing production and assistance as long as total HUD funding remains relatively stagnant.

Critical Housing Needs Persist

While new Federal housing investment shrinks and is increasingly devoted to preservation activities, the number of low- and moderate-income families with critical housing needs remains startlingly high. One out of every eight American families has a critical housing need, according to Harvard University's Joint Center for Housing Studies' 2001 report, *The State of the Nation's Housing.* That is 14 million families, including homeowners and renters, ranging from the very poor to the solidly middle class.

Indisputably, families hardest hit are those with the least income. Of the more than 14 million families with critical housing needs, 84 percent earn 50 percent of their area's median income (AMI) or less. A stunning two-thirds have incomes of 30 percent of AMI or less.

Meanwhile, we are not even maintaining our affordable housing stock, let alone increasing it. HUD's 2001 Report on Worst Case Housing Needs in 1999 reports that the number of rental units affordable to extremely low-income households (with incomes of 30 percent of AMI or less) dropped by 750,000, and the total number of units affordable to very low-income households (with incomes of 50 percent of AMI or less) fell by 1.14 million between 1997 and 1999. HUD found that in every region of the country, rental housing affordable to extremely low-income renters was in shorter supply than housing affordable to other income groups.

The Joint Center's report also reveals that, "the total number of unsubsidized units affordable to extremely low-income households is just 1.2 million. With 4.5 million unsubsidized renters earning less than 30 percent of the area median income, the shortfall in affordable housing for the very poorest now stands at 3.3 million units. These numbers, in fact, understate the shortage because higher income households occupy 65 percent of the units affordable to extremely low-income households."

In 2001, HUD reported that 4.9 million poor households suffered "worst case housing needs" in 1999, defined as paying more than 50 percent of their income in rent and/or living in severely substandard housing. HUD also documented that only one of every three extremely low- and very low-income households eligible for Federal housing assistance actually receive it, leaving 9.7 million poor households in desperate need of housing help.

In the face of growing housing needs among extremely low-income families, State housing agencies report increased difficulty housing them. Though the GAO reported in 1997 that Housing Credit properties with additional subsidies were reaching families with average incomes of 25 percent of AMI, State agencies simply do not have the sufficient subsidies to begin to meet the need. With the victory of the Credit Cap Increase has come the realization that States will be more limited in our ability to invest credits in housing serving extremely low-income families without significant increases in subsidy dollars that can be combined with the credit.

My State of Maryland has acute unmet housing needs, particularly among very low- and extremely low-income families. We estimate that about 70 percent of all extremely low-income renters in Maryland pay more than 30 percent of their income in rent, and about half pay more than 50 percent of their income in rent. The National Low-Income Housing Coalition estimates 39 percent of Maryland renters pay more than 30 percent of their income in rent.

Even with the Housing Credit cap increase, requests for credits exceed our supply by a 4-to-1 ratio. Maryland also exhausts its private activity bond cap annually, and it too is vastly oversubscribed. Pressure on the bond cap will continue to build as the Ten-Year Rule increasingly prevents us from recycling MRB mortgage payments

into new mortgages, forcing us to use new cap authority to finance new MRB loans. We estimate the Ten-Year Rule will cost Maryland over $400 million in MRB mortgage money over just the next 5 years.

Our HUD monies are also woefully insufficient. For example, this year, we received requests for more than two times our homeless assistance funding. Demand for our HOME funds also exceeded their supply. We estimate we could commit an additional $12 to $13 million in HOME funds in just the next 6 months. This includes $9 million for multifamily projects that are ready to go forward and are currently waiting for funding and $3 to $4 million for rehabilitating single-family homes and financing group homes for the disabled, persons with mental illness, and persons with AIDS.

While not a housing program per se, the Community Development Block Grant (CDBG) program has provided flexible funding for housing-related activities for low-income people for more than 25 years. States spend approximately 20 percent of their CDBG funds on housing. In Maryland, we have used about 30 percent of our CDBG funds for housing activities. Total CDBG requests exceed available funds by more than 2-to-1. This year, Congress cut the formula allocation for the CDBG program by $60 million, or 1.3 percent. From October 2000 to October 2001, the country's inflation rate was 2.1 percent. While these percentages seem small, in real terms, the formula program would have needed an increase of about $90 million for the fiscal year 2002 budget to keep things where they are. For fiscal year 2003, the formula portion of the CDBG program would need to increase by about $250 million to offset this year's cut and inflation.

Some will propose more tenant-based vouchers as the answer to our affordable housing needs. Vouchers are an important tool, and we certainly need more of them. In Maryland and many other States, however, vouchers are of no use in a number of areas where there is simply no affordable housing to rent. In Howard County, for example, the county housing department reports the rental vacancy rate is .57 percent—there are only 57 vacant rental units for every 10,000 rental units in the county. Preliminary 2000 census figures show that a number of counties in Maryland have vacancy rates below 2 percent. More vouchers will not address the lack of available units. Simply put, we need to produce more units.

Make Federal Housing Resources Work Smarter, Go Farther

Unquestionably, Congress must find a way to devote substantially more Federal resources to affordable housing if we are to even begin to meet our country's housing needs. But, we must also recognize that whatever increased investment our collective best efforts might produce will not be enough to solve the dire housing problems we confront. So, it is essential that we make the most of every housing dollar the Federal Government provides.

This requires eliminating unnecessary and outmoded Federal rules and regulations that slow the delivery of funds, increase costs, and frustrate results. The changes we propose to the Bond and Housing Credit programs in S. 677 are just a few examples of the kinds of changes in Federal housing programs that are sorely needed to maximize dollars spent and to reach as many eligible families as possible. NCSHA has proposed to the Millennial Housing Commission many more recommendations for streamlining HOME and other HUD programs to make them work more effectively and efficiently both separately and together. We are hopeful that the Commission will include these recommendations in its report to the Congress next spring, and you will swiftly enact them.

One sure way to deliver Federal housing resources more efficiently and target them more effectively is to devolve greater responsibility for their administration to the States. During the last three decades, State housing agencies have assumed a primary role in financing affordable housing. Our success in blending business-like efficiency with accomplishing our public mission has earned us the respect of the Congress, our States, and the community at large.

Congress, in turn, has entrusted States with the administration of the bond and housing credit programs, the only Federal programs dedicated to financing lower income first-time homebuyer mortgages and low-income apartment construction. Congress has also empowered the States to administer the HOME program, FHA-HFA multifamily risk-sharing, and Section 8 restructuring and contract administration and to borrow funds directly from the Federal Home Loan Banks. Employing these and other programs and resources, State agencies administer the full range of affordable housing programs, including homeownership, rental, homeless, and all kinds of special needs housing.

State agencies have strong management, broad experience in underwriting and finance, and expert staffs, which number as many as 300 in the larger agencies. We have issued nearly $140 billion in bonds to finance homeownership and apartment

construction without a single default and with foreclosure and delinquency rates far lower than industry averages.

State housing agencies have achieved significant results, but we do not work alone. We have built strong partnerships with local governments, nonprofits, the private sector, resident and community groups, and service providers to address the unique and diverse housing challenges we confront. The results are dramatic. We have financed more than 2 million first-time, lower-income homebuyer mortgages and more than 1.8 million apartments, including more than 1.2 million through the housing credit.

State housing agencies have also been strong and successful partners with HUD, when HUD rules have permitted us to use our talent and expertise to do the job. Most recently, 35 HFA's have assumed HUD's responsibility for the administration of 750,000 Section 8 project-based units.

States have accomplished these results because Congress has empowered us to employ Federal resources flexibly and leverage them to meet a variety of affordable housing challenges. As you well know, housing needs and conditions vary dramatically among and within States. One-size, Washington-driven housing solutions simply do not fit all. That is why programs like the Housing Credit and Bonds are so successful. They let States and our partners respond effectively, efficiently, and imaginatively to our most pressing housing needs.

Establish and Fund a New Production Program

Clearly, existing resources are insufficient to meet the Nation's affordable housing needs, particularly those of extremely low-income renters. That is why one of NCSHA's highest legislative priorities and a priority of the National Governors Association is the creation of a new, State-administered rental production program, targeted in significant part to extremely low-income families. We want to work with you to design a program that builds on the success of programs like bonds, the housing credit, and HOME, utilizes the existing, proven State delivery system, and is integrated with existing State housing allocation plans and funding systems.

We know that builders are willing to build affordable rental housing if funds are available. The demand for the rental housing programs we operate bears this out. For example, we received about $12.5 million in State funds this year to provide rental housing. Developers requested $47 million in State funds, almost four times the amount available. As mentioned, even with the increase in the housing credit cap, demand exceeds supply by almost 4-to-1. We received $7.9 million in credits this year and had requests for $31 million in credits.

States are in the best position to combine new, flexible funding with bonds, housing credits, and other resources and to target limited funds to our most critical needs. We know our housing needs and markets and have proven delivery systems in place that can provide one-stop shopping to the development community. State administration will also assure that the impact of whatever limited funding Congress makes available is not diluted by the distribution of funds to hundreds of local communities, as under the HOME program.

A new program will only work, however, if States are given the flexibility we need to tailor innovative solutions to our unique and varied housing problems. HUD regulation must be limited to that which is necessary to assure nondiscrimination and accountability for the use of funds to achieve the goals Congress sets. Irrational and unnecessarily burdensome rules, regulations, and reporting requirements frustrate States and our partners, smother creativity, increase costs, and delay results.

We propose that the new funds be allocated by State housing agencies, subject to a State allocation plan, modeled on the housing credit qualified allocation plan. The plan, developed with extensive pubic input, would identify the State's priority rental housing needs and strategies for using the funds to address them.

States should be empowered to use funds for a wide range of activities, including tenant and project-based assistance, new construction, rehabilitation, preservation, and operating assistance and to deliver funds through an array of capable partners, including the public and private sectors, and nonprofit and for profit entities. Funds should not be encumbered with program set-asides.

Finally, it is essential that any new program's income, rent, and other rules be compatible with those of other Federal housing programs, for its combination with them will almost always be necessary to reach extremely low-income families.

In conclusion, we have a long way to go to close the ever-widening gap between housing need and housing resources, and there is no single, simple answer. But, clearly, three steps would make a significant difference: housing program funding at least sufficient to keep pace with inflation; the deregulation and devolution of existing programs; and new, flexible State-administered resources to help fill the gaps, particularly in our ability to house our most needy families.

Thank you for the opportunity to testify today. NCSHA and our member State housing agencies are very grateful for your enthusiastic and sustained support of affordable housing. We stand ready to assist you in any way we can.

PREPARED STATEMENT OF EDGAR O. OLSEN, PhD

PROFESSOR OF ECONOMICS, UNIVERSITY OF VIRGINIA

NOVEMBER 29, 2001

Mr. Chairman and Members of the Committee on Banking, Housing, and Urban Affairs: I welcome this opportunity to talk with you about the fiscal year 2003 HUD Budget. I speak from the perspective of a taxpayer who wants to help low-income families. I have no other financial interests in the matters under consideration at this hearing.

My views are influenced not only by this perspective but also by my knowledge of the systematic evidence about the effects of low-income housing programs. I have been involved in housing policy analysis since the late 1960's. Since then, I have done many empirical studies of the effects of low-income housing programs, and I have read carefully a very large number of other studies. During the Nixon Administration, I was an analyst on the Housing Policy Review Task Force that led to the Section 8 Certificate Program. As a visiting scholar at HUD during the Carter Administration, I worked on an evaluation of this program and reviewed the final reports from the Experimental Housing Allowance Program. More recently, I have written a lengthy survey of what is known about the effects of low-income housing programs for a National Bureau of Economic Research volume on means-tested transfer programs, and I did a substantial amount of work as a consultant to the GAO on their study comparing the cost-effectiveness of tenant-based vouchers and major construction programs such as the Low-Income Housing Tax Credit and HOPE VI. My testimony will focus on the HUD budget for low-income housing programs.

Given the current economic slowdown and the added expense of fighting international terrorism, it is clear that we will not be able to spend more money on housing assistance over the next few years. The question is: How can we continue to serve current recipients equally well and serve some of the poorest families who have not yet been offered assistance without spending more money? The answer is that we must use the money available more wisely.

Research on the effects of housing programs provides clear guidance on this matter. It shows that we can serve current recipients equally well (that is, provide them with equally good housing for the same rent) and serve many additional families without any increase in the budget by shifting resources from project-based to tenant-based assistance.

Five major studies have estimated both the cost per unit and the mean market rent of apartments provided by housing certificates and vouchers and the largest older production programs, namely Public Housing, Section 236, and Section 8 new construction.[1] These studies are based on data from a wide variety of housing markets and for projects built in many different years. Three were multimillion dollar studies conducted for HUD by respected research firms during the Nixon, Ford, Carter, and Reagan Administrations. They are unanimous in finding that housing certificates and vouchers provide equally desirable housing at a much lower total cost than any of these production programs, even though all of these studies are biased in favor of the production programs to some extent by the omission of certain indirect costs.

The studies with the most detailed information about the characteristics of the housing provided by the programs found the largest excess costs for the production programs. One study estimated the excessive cost of public housing compared to housing vouchers for providing equally desirable housing to be 64 percent and 91 percent in the two cities studied and the excessive cost of Section 236 to be 35 percent and 75 percent in these two cities (Mayo and others, 1980). Another study estimated the excessive cost of Section 8 new construction compared to tenant-based Section 8 certificates to be 37 percent even when all of the indirect costs of the Section 8 new construction program are ignored (Wallace and others, 1981). These indi-

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[1] The studies are Mayo and others (1980), Olsen and Barton (1983), Schnare and others (1982), U.S. Department of Housing and Urban Development (1974), and Wallace and others (1981). Olsen (2000) provides a description and critical appraisal of the data and methods used in these studies as well as a summary of their results.

rect subsidies include GNMA Tandem Plan interest subsidies for FHA-insured projects and the forgone tax revenue due to the tax-exempt status of interest on the bonds used to finance SHFA projects. Based on previous studies, the authors argue that these indirect costs would add 20 to 30 percent to the total cost of the Section 8 new construction Program.

The recently completed GAO study produced similar results for the major active construction programs—LIHTC, HOPE VI, Section 202, Section 515, and Section 811. Using the conceptually preferable life cycle approach, the excess total cost estimates range from at least 12 percent for Section 811 to at least 27 percent for HOPE VI.[2] (The GAO calculations exclude HOPE VI construction costs that are not related to housing.) These estimates are lower bounds on the excessive cost because some costs of the production programs were omitted due to the difficulty of collecting the relevant data. For example, all public housing projects receive substantial local property tax abatements. The GAO analysis ignores this cost to local taxpayers. An earlier study (reported in Olsen, 2000, p. 16) estimated that these abatements account for 22 percent of the cost of this program to taxpayers.

The GAO study also contains evidence concerning whether production programs are more cost-effective than tenant-based vouchers in the tightest housing markets. In addition to the national estimates, the GAO collected data for seven metropolitan areas. The data for the GAO study refer to projects built in 1999. In that year, the rental vacancy rates in the seven metropolitan areas ranged from 3.1 percent in Boston to 7.2 percent in Baltimore and Dallas, with a median of 5.6 percent. The overall rental vacancy rate in U.S. metropolitan areas was 7.8 percent. So all of the specific markets studied were tighter than average. Only five of the largest 75 metropolitan areas had vacancy rates lower than Boston's. In each market, tenant-based vouchers were more cost-effective than each production program studied.

The GAO study will not be the last word on the cost-effectiveness of the programs studied. Improvements in its implementation of the life-cycle methodology are possible and desirable. However, it provides the only independent cost-effectiveness analysis of these programs.

The magnitude of the gain from shifting from project-based to tenant-based assistance would be substantial. Even the smallest estimates of the excess costs of project-based assistance imply that shifting 10 families from project-based to tenant-based assistance would enable us to serve two additional families. Since HUD provides project-based assistance to more than three million families, a total shift from project-based to tenant-based assistance would enable us to serve at least 600,000 additional families with no additional budget. The most reliable estimates in the literature imply much larger increases in the number of families served. For example, the Abt study of the Section 8 New Construction Program implies that tenant-based vouchers could have provided all of the families who participated in this Program with equally good housing for the same rent and served at least 65 percent more families with similar characteristics equally well without any additional budget. Since this program served over 900,000 families at its peak, this amounts to an additional 585,000 families. These findings have important implications for how the HUD budget should be spent.

First, the money currently spent on operating and modernization subsidies for public housing projects should be used to provide tenant-based vouchers to public housing tenants, as proposed by the Clinton Administration and by Senator Dole during his Presidential campaign. To enable housing authorities to provide decent housing despite this loss in revenue, they should be allowed to rent their apartments to any household eligible for housing assistance for whatever rent this market will bear. Families with tenant-based vouchers would occupy many of these apartments. Other families eligible for housing assistance would occupy the rest. Housing authorities could raise additional money by taking advantage of the current regulation that allows them to sell projects. At present, they have little incentive to do it. Without guaranteed Federal operating and modernization subsidies, many authorities may well decide to sell their worst projects. These are the projects that will be abandoned to the greatest extent by their tenants with vouchers, and they are the most expensive to operate. They should be sold in their current condition

[2] The GAO study also reports first-year excess costs of the production programs. The first-year cost of a production program is the sum of the annualized development subsidies and the tenant rent and other Government subsidies during the first year of operation. The estimates of excess cost of production programs based on this method are much higher than estimates based on the life-cycle approach. Although these estimates may be closer to the truth due to the omission of some of the costs of production programs and deviations between the assumptions of the life-cycle analysis and reality, this methodology is defective for the reasons explained in Olsen (2000, pp. 18–21).

to the highest bidder in order to maximize the revenue available to modernize other projects. If housing authorities are unable to compete with private owners for their tenants, they should not be in the business of providing housing.

Second, contracts with the owners of private subsidized projects should not be renewed. Instead we should give their tenants portable vouchers and force the owners to compete for their business. Tenants who choose to move should be given a modest grant for moving expenses. This is far less expensive than continuing with these costly forms of project-based assistance.[3] It is important to realize that for-profit sponsors will not agree to extend the use agreement unless this provides at least as much profit as operating in the unsubsidized market. Since these subsidies are provided to selected private suppliers, the market mechanism does not insure that profits under the new use agreement will be driven down to market levels. If this is to be achieved at all, administrative mechanisms must be used. Proponents of all previous programs of this sort argued vigorously that their program would insure that excessive costs were not paid for apartments. Cost-effectiveness studies of these programs indicate that they failed badly to control costs. There is no reason to believe that the mark-to-market initiative will produce better results. It will merely hide the excess cost to a greater extent. We should leave the job of getting value for the money spent to the people who have the greatest incentive to do it, namely the tenants.

Third, the construction of additional public or private projects should not be subsidized. For example, no additional money should be allocated to HOPE VI. This program is an improvement over traditional public housing in that it avoids concentrating the poorest families at high densities in projects. However, the GAO study reveals that it is highly cost-ineffective compared with tenant-based vouchers that also avoid these concentrations. For the same reason, there should be no new HUD production program.

Most people who develop and operate subsidized housing projects will oppose these reforms. However, they will give taxpayers who want to help low-income families more for their money by greatly increasing the number of families served with a given budget without reducing support for current recipients.

Two main objections have been raised to exclusive reliance on tenant-based assistance. Specifically, it has been argued that tenant-based assistance will not work in markets with the lowest vacancy rates and construction programs have an advantage compared with tenant-based assistance that offsets their cost-ineffectiveness, namely they promote neighborhood revitalization to a much greater extent.

Taken literally, the first argument is clearly incorrect in that Section 8 certificates and vouchers have been used continuously in all housing markets for more than two decades. A more precise version of this argument is that tenant-based assistance will not work in the some markets because these markets do not have enough vacant apartments that meet minimum housing standards and are affordable to voucher recipients. The defects of this argument are easy to understand, and it is inconsistent with the empirical evidence.

All vouchers authorized in a locality can be used even if the number of vacant apartments that meet minimum housing standards and are affordable to voucher recipients is less than the number of vouchers authorized. Some recipients offered vouchers might already occupy apartments meeting the program's standards. In this case, the family can participate without moving. In the absence of assistance, these recipients typically devote a high fraction of their income to housing and skimp on other necessities. The housing voucher reduces their rent burden. Other families who are offered vouchers will live in housing that does not meet Section 8 standards. However, these apartments can be repaired to meet the standards. Similarly, vacant apartments that do not initially meet the program's standards can be upgraded to meet them. In short, we do not need new construction to increase the supply of apartments meeting minimum housing standards.

The evidence shows that these are not theoretical curiosities. The tenant-based Section 8 certificate and voucher programs have substantially increased the supply of affordable housing meeting minimum housing standards. The most recent detailed analysis is based on data from a national random sample of 33 public housing authorities in 1993 (Kennedy and Finkel, 1994). Thirty percent of all recipients outside of New York City continued to live in the apartments that they occupied prior to participating in the program (Kennedy and Finkel, p. 15).[4] Forty-one percent of these apartments already met the program's standards and 59 percent were repaired to meet the standards (Kennedy and Finkel, p. 83). About 70 percent of all recipients outside of New York City moved to a new unit. About 48 percent of these

[3] See Weicher (1997) for a detailed analysis of vouchering out project-based assistance.

[4] The authors analyzed New York City separately from the other housing authorities.

apartments were repaired to meet the program's standards (Kennedy and Finkel, p. 84). The rest moved to vacant apartments that already met the standards. Therefore, the apartments occupied by about half of the families that received certificates and vouchers outside NYC during this period were repaired to meet the program's standards. The previously mentioned sources contain similar results for NYC. In this city, only 31 percent of the apartments occupied by recipients had to be repaired to meet the program's standards.

The Housing Assistance Supply Experiment of the Experimental Housing Allowance Program (EHAP) provides even more powerful evidence on the ability of tenant-based vouchers to increase the supply of apartments meeting minimum housing standards even in tight housing markets. The Supply Experiment involved operating an entitlement housing allowance program for 10 years in St. Joseph County, Indiana (which contains South Bend) and Brown County, Wisconsin (which contains Green Bay). These were smaller than average metropolitan areas with populations of about 235,000 and 175,000 people, respectively. The general structure of the housing allowance program in the Supply Experiment was the same as the Section 8 Voucher Program that EIM operated from 1983 until its merger with the new Housing Choice Voucher Program, except that homeowners were eligible to participate in the Supply Experiment. About 20 percent of the families in the two counties were eligible to receive assistance (Lowry, 1983, pp. 92–93). By the end of the third year when participation rates leveled off, about 41 percent of eligible renters and 27 percent of eligible homeowners were receiving housing assistance (Lowry, pp. 24–25). Data for analysis was collected during the first 5 years of the experiment in each site. During that period, about 11,000 dwellings were repaired or improved to meet program standards entirely in response to tenant-based assistance and about 5,000 families improved their housing by moving into apartments already meeting these standards (Lowry, p. 24). This represented more than a 9 percent increase in the supply of apartments meeting minimum housing standards. So, tenant-based assistance alone produced a much greater percentage increase in the supply of adequate housing in these localities in 5 years than all of the Federal Government's production programs for low-income families have produced in the past 65 years. The annual cost per household was less than $3,000 in current prices.

The Supply Experiment sites were chosen to differ greatly in their vacancy rates and the size of their minority populations in order to determine whether the outcomes of an entitlement housing allowance program depend importantly on these factors. At the outset of the Supply Experiment, the vacancy rates in Brown and St. Joseph County were 5.1 percent and 10.6 percent (Lowry, p. 53). So the average vacancy rate in the two sites was almost exactly the average vacancy rate in 2000 for U.S. metropolitan areas (7.7 percent). In 2000, only 26 percent of the 75 largest metropolitan areas had vacancy rates less than the vacancy rate in Brown County at the outset of the experiment and 20 percent had vacancy rates greater than the vacancy rate in St. Joseph County. The participation rate differed little between the two sites. Indeed, it was higher in the locality with the lower vacancy rate (Lowry, p. 122).

We do not need production programs to increase the supply of apartments meeting minimum housing standards. The Experimental Housing Allowance Program demonstrated beyond any doubt that the supply of apartments meeting minimum housing standards can be increased rapidly by upgrading the existing stock of housing even in tight markets. This happened without any rehabilitation grants to suppliers. It happened entirely in response to tenant-based assistance that required families to live in apartments meeting the program's standards in order to receive the subsidy.

Those who express concern about the ability of tenant-based assistance to work well in the tightest housing markets usually mention the low success rates in some localities. In discussing this matter, it is important to distinguish between an authority's so-called success rate and its ability to use Section 8 vouchers. An authority's success rate is the percentage of the families authorized to search for a unit who occupy a unit meeting the program's standards within the housing authority's time limit. An authority's success rate depends on many factors including the local vacancy rate. The most careful study of success rates (Kennedy and Finkel, 1994) indicates that among localities that are the same with respect to other factors those with the lowest vacancy rates have the lowest success rates.

An authority's success rate bears no necessary relationship to the fraction of the authority's vouchers in use at any point in time. No matter what an authority's success rate, the authority can fully use the vouchers allocated to it by authorizing more families to search for apartments than the number of vouchers available. For example, if an authority has a success rate of 50 percent, authorizing twice as many families to search as the number of vouchers available will result in full utilization

of the vouchers on average. If each housing authority adjusted its issuance of vouchers to its success rate in this manner, some authorities would exceed their budget and others would fall short in a given year. However, the national average success rate would be very close to 100 percent.

For many years, public housing authorities have over-issued vouchers and thereby achieved high usage rates despite low success rates. In recent years, they have had a reserve fund for this purpose, and current regulations call for penalties on authorities with usage rates below 95 percent. The national average usage rate is high (about 92 percent).

Almost all tenant-based certificates and vouchers are in use at each point in time. Even more would be in use if housing authorities were more aggressive in over-issuing vouchers. Local housing authorities rarely, if ever, return certificates and vouchers to HUD. Although it is true that some families who are offered vouchers do not find housing that suits them and meets the program's standards within their housing authority's time limits, other eligible families in the same locality use these vouchers. This indicates clearly that the problem is not that there are no vacant apartments that meet program standards and are affordable to voucher recipients or apartments whose landlords are willing to upgrade them to meet program standards. In the tightest housing markets, these apartments are extremely difficult to locate. Unsubsidized families also have trouble locating apartments in tight housing markets.

The real issue is not whether tenant-based vouchers can be used in all market conditions but whether it would be better to use new construction or substantial rehabilitation programs in tight markets. In this regard, the key question is: Will construction programs get eligible families into satisfactory housing faster than tenant-based vouchers in some market conditions?

Based on existing evidence, there can be little doubt that tenant-based vouchers get families into satisfactory housing much faster than any construction program even in the tightest housing markets. Two major studies of success rates under the tenant-based Section 8 program have been completed over the past 15 years (Leger and Kennedy, 1990; Kennedy and Finkel, 1994). These studies collected data on more than 50 local housing authorities selected at random. The lowest success rate observed was 33 percent for New York City in the mid-1980's.[5] If a housing authority with this success rate issued only the vouchers available at each point in time and allowed recipients up to 3 months to find a unit meeting the program's standards, about 80 percent of new vouchers would be in use within a year. If they followed the current practice of authorizing more families to search for apartments than the number of vouchers available, almost all of the vouchers would be in use within 3 months.

How long does it take from the time that money is allocated for construction programs to the time that the first units are available for occupancy? Based on data on a national random sample of 800 projects built between 1975 and 1979, Schnare, Pedone, Moss, and Heintz (1982) found the mean time from application for project approval to completion of the project ranged from 23 months for Section 236 to 53 months for conventional public housing. Mean times ranged from 26 to 31 months for the variants of the Section 8 New Construction and Substantial Rehabilitation Program. Occupancy of the completed apartments required additional time. Although the authors did not report results separately for different markets, it seems reasonable to believe that these times were greater in the tightest housing markets because the demand for unsubsidized construction would be greatest in these locations.

So if Congress were to simultaneously authorize an equal number of tenant-based vouchers and apartments under any construction program, it is clear that all of the vouchers would be in use long before the first newly built unit was occupied, no matter what the condition of the local housing market at the time that the money is appropriated.

The second major objection to the exclusive reliance on tenant-based assistance is that new construction promotes neighborhood revitalization to a much greater extent than tenant-based assistance. The evidence from the Experimental Housing Allowance Program is that even an entitlement housing voucher program will have modest effects on neighborhoods and the small literature on the Section 8 Voucher

[5] The success rate in New York City in the mid-1980's was much lower than the second lowest (47 percent in Boston in the mid-1980's) and much lower than in New York City in 1993 (65 percent). An earlier study based on data from the late-1970's found lower success rates. However, at that time housing authorities were still figuring out how to administer this new program. So these success rates are of no relevance for predicting the effects of expanding the program today.

Program confirms these findings for a similar nonentitlement program (Lowry, 1993, pp. 205–217; Galster, Tatian, Smith, 1999B). These programs result in the upgrading of many existing dwellings, but this is concentrated on their interiors. It is plausible to believe that a new subsidized project built at low-density in a neighborhood with the worst housing and poorest families would make that neighborhood a more attractive place to live for some years after its construction. The issue is not, however, whether some construction projects lead to neighborhood upgrading. The issues are the magnitude of neighborhood upgrading across all projects under a program over the life of these projects, who benefits from this upgrading, and the extent to which upgrading of one neighborhood leads to the deterioration of other neighborhoods.

The primary beneficiaries of neighborhood upgrading will be the owners of nearby properties. Since the majority of the poorest families are renters, it is plausible to believe that most of the housing surrounding housing projects located in the poorest neighborhoods is rental. Therefore, if a newly built subsidized project makes the neighborhood a more attractive place to live, the owners of this rental housing will charge higher rents and the value of their property will be greater. Since the occupants of this rental housing could have lived in a nicer neighborhood prior to the project by paying a higher rent, they are hurt by its construction. The poor in the project's neighborhood will benefit from the neighborhood upgrading only to the extent that they own the property surrounding the project.

With the passage of time, the initial residents will leave the neighborhood in response to the project and others who value a better neighborhood more highly will replace them. In short, housing programs involving new construction will shift the location of the worst neighborhoods to some extent. The aforementioned possibilities have not even been recognized in discussions of housing policy, let alone studied.

What has been studied is the extent to which projects under various housing programs affect neighborhood property values. The existing studies find small positive effects on average for some programs and small negative effects for others (Lee, Culhane, and Wachter, 1999; Galster, Smith, Tatian, and Santiago, 1999A; Galster, Tatian, and Smith, 1999B). No study finds substantial positive effects on average for any program.

The consequence of using the costly construction and substantial rehabilitation programs has been that several million of the poorest families who could have been provided with adequate housing at an affordable rent with the money appropriated for housing assistance have continued to live in deplorable housing or paid a substantial fraction of their income to live in adequate housing. We should learn from our past mistakes and not heed the call for a new HUD production program. Indeed, we should go further and disengage from project-based assistance to existing apartments as soon as current contractual commitments permit.

I appreciate the willingness of Members of the Committee to listen to the views of a taxpayer whose only interest in the matters under consideration is to see that tax revenues are used effectively and efficiently to help low-income families.

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PREPARED STATEMENT OF DAVID W. CURTIS

EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

LEON N. WEINER & ASSOCIATES, INC.

TESTIFYING ON BEHALF OF

THE NATIONAL ASSOCIATION OF HOME BUILDERS, INC.

NOVEMBER 29, 2001

Introduction

On behalf of the 205,000 members of the National Association of Home Builders, I want to thank you for inviting us to speak on the fiscal year 2003 Department of Housing and Urban Development (HUD) budget. My name is David Curtis, and I am a builder from Wilmington, Delaware. I currently serve as Executive Vice President of Leon N. Weiner & Associates, Inc., which is a Wilmington-based home building, development and property management firm. The Weiner organization and its affiliates are recognized as industry leaders, particularly in the area of providing affordable housing to individuals and families of moderate means. The company has developed and constructed more than 4,500 homes, 9,000 apartments, and several hotels, office and retail facilities.

Two recent reports, one by the Center for Housing Policy, "Paycheck to Paycheck: Working Families and the Cost of Housing in America," and the Joint Center for Housing Studies of Harvard University's, The State of the Nation's Housing Annual Report 2001, have extensively documented the growing problem of housing affordability for low- and moderate-income households. The Joint Center's report states that, at the end of the last decade, over 14 million owner and renter households spent more than half their incomes on housing. Two million households lived in homes with serious structural deficiencies, and many of those households were also severely cost-burdened. The Center for Housing Policy estimates that 3.7 million households who fall within the category of the "working poor" have critical housing needs.

NAHB strongly supports the mission of HUD and its efforts to meet the Nation's housing and community development needs through single-family, multifamily, and urban and rural development initiatives. Most of these efforts include a public-private partnership that involves private, for-profit home builders and that is facilitated through coordination with many other partners including community organizations and State and local governments. In addition to developing and overseeing most of the key Federal programs in these areas, HUD also conducts important research and analysis on housing needs and solutions to housing problems.

NAHB views HUD's role in housing as critical to achieving the Nation's goal of safe and decent housing for every American. Success in these efforts requires adequate funding and effective and efficient operation of the Department. We recognize there are significant challenges in meeting funding requests throughout the Federal budget, but we urge Congress to provide sufficient funds to give HUD the staff and resources necessary to make meaningful progress in addressing the Nation's housing and community development needs. Our detailed recommendations follow.

In addition, the HUD budget is a factor in the degree of economic stimulus received by the housing sector and the economy. Our statement also includes observations and recommendations on economic stimulus measures.

The Federal Housing Administration (FHA) Multifamily Programs

The FHA is the only Federal program that supports the production and rehabilitation of affordable rental housing units for a range of incomes, not just the very low end of the market.

However, while the FHA programs continue to serve a vital function within the housing finance system, the legislative, regulatory, and policy framework under which these programs operate are often unnecessarily restrictive and burdensome. On the multifamily side, the programs have been subjected to a series of start-stop cycles that have resulted in significant losses of time and money to developers and longer waits for affordable housing by residents.

Of particular concern to NAHB is HUD's decision to raise the mortgage insurance premium from 50 to 80 basis points for a number of the FHA multifamily mortgage programs, in particular the 221(d)(4) program. According to the model used by HUD and the Office of Management and Budget (OMB) to determine credit subsidy requirements, the higher mortgage insurance premium allows the FHA Section 221(d)(4) multifamily mortgage insurance program to operate without a credit subsidy appropriation. The Administration's budget for fiscal year 2002 continues the higher premium level.

NAHB has expressed its opposition to the mortgage insurance premium increase as burdensome and unnecessary. NAHB; believes the premium increase in the Section 221(d)(4) program will lead to higher rents and reduced production of affordable rental housing. NAHB believes that the assumptions in the model used by HUD and OMB to determine the credit subsidy requirements for the Section 221(d)(4) program are excessively pessimistic. For example, the model places too much weight on the performance of loans from the early 1980's, which were insured under much weaker underwriting standards than employed today and were impacted by the unprecedented retroactive provisions of the 1986 Tax Act. If the model were revised to address these and other problems, the Section 221(d)(4) program would not require credit subsidy appropriations or an increase in insurance premium.

Congress recognized this problem by directing HUD, in the fiscal year 2002 HUD/VA appropriations bill conference report, to work with the industry to review the technical assumptions provided by HUD to OMB for inclusion in the risk model. FHA Commissioner John Weicher and his staff held several meetings with NAHB where HUD requested and NAHB offered recommendations for alterations to the model. Commissioner Weicher agreed to complete a study of the credit subsidy model by October 1, 2001, so that a revised formula could be in effect for the fiscal year 2003 budget, but has failed to do so. NAHB believes that completing the study of the model and implementing any changes in time for the fiscal year 2003 budget cycle is of utmost importance. We also believe that HUD needs to follow through in working with the industry in finalizing any changes.

Also related to the FHA multifamily programs, we appreciate the support of HUD and applaud the action taken by Congress in the HUD fiscal year 2002 appropriations bill, which raises the FHA multifamily mortgage loan limits by 25 percent. The limits, which remained at the level last set in 1992, made the program unworkable in many major urban areas. The increase in the mortgage loan limits will now help provide affordable housing in many areas where the programs could not be used previously.

We were disappointed, however, that the increase was not indexed to account for inflation each year. Without indexing, the loan limits will rapidly become outdated, leaving us in the same position as before. We urge you to include an inflation index to the mortgage loan limits in the fiscal year 2003 budget, and we recommend using the U.S. Bureau of the Census Annual Construction Cost Index. This index is used to derive the annual value of general construction costs put into place and is a measure of the impact of inflation on construction costs. It is the best readily available index published on an annual basis.

Additionally, there are a few cities where costs, particularly for land, have risen so dramatically over the past several years that the 25 percent increase will not be

sufficient to enable developers to use the FHA programs. While the Secretary has discretion to adjust the limits by a high cost factor, we believe that a legislative change is needed to recognize that there are some very high cost cities that should be permitted to exceed the current 110 percent high cost factor. We encourage you to consider making such a legislative change.

HUD Budget Recommendations

NAHB believes that it is essential to maintain a strong Federal commitment to housing assistance programs for low- and moderate-income families and provide incentives for greater involvement by State and local governments to develop affordable housing solutions. As such, we support adequate funding levels for the housing programs that will help achieve these goals.

HOME Investments Partnerships Program

NAHB is very supportive of the HOME program. It is an important and flexible block grant that State and local governments use to address their locally identified affordable housing needs. HOME funds have become an important source of gap financing for developers using tax-exempt bonds, low-income housing tax credits and other affordable housing financing. HOME funds are also an important source of assistance for first-time homebuyers. We support a funding level of at least $2 billion, without funds earmarked for specific purposes. We believe the participating jurisdictions already have the flexibility to use HOME funds to meet their specific housing needs, which can vary considerably.

Community Development Block Grants (CDBG)

NAHB was disappointed that the funding for the CDBG program was reduced from $4.4 billion in fiscal year 2001 to $4.34 billion in fiscal year 2002. NAHB supports a funding level of $4.8 billion. This program, which provides flexible funding so that communities can meet housing and economic development needs as they see fit, is a cornerstone in the effort to revitalize our Nation's cities and rural areas. We were pleased that HUD recently changed its position on prohibiting the use of CDBG funds for the new construction of single-family housing. We urge Congress to consider allowing the use of CDBG funds for the new construction of multifamily housing as well.

Section 8

While NAHB understands the reason Secretary Martinez requested fewer vouchers for fiscal year 2002, it is nonetheless a dramatic reduction from the fiscal year 2001 level of 79,000 vouchers. We understand that, in some localities, vouchers were not being utilized efficiently; however, HUD is taking steps to address this issue, which should help improve utilization rates. At the same time, Congress needs to be aware that demand for Section 8 vouchers has not declined. In fact, in many localities, residents face waits of 5 or more years before they can receive a voucher. We urge Congress to provide funds for all Section 8 contract renewals and, additionally, provide funding for 79,000 new incremental vouchers in fiscal year 2003. The Section 8 voucher program is critical to addressing the housing needs of extremely low- and very low-income residents, especially during economically difficult times when more families are facing unemployment and rising housing costs.

Partnership for Advancing Technology in Housing (PATH)

NAHB is supportive of the $8.75 million that was included in the fiscal year 2002 budget. This program is vital to the accelerated development of new housing technologies, designs, and practices that can significantly improve the quality of housing and save energy without raising the cost of construction. We urge you to continue funding of this innovative program.

The Rural Housing and Economic Development Program

While much progress has been made in improving housing in rural America, there remains a considerable unmet need, particularly among very low- and low-income rural households. NAHB supports the Senate's restoration of the Rural Housing and Economic Development Program because it provides funding for important technical assistance, such as homeownership counseling, to those who live in rural communities. Our members report that credit problems and lack of knowledge about the home buying process are serious issues in rural communities and that programs to address these issues are valuable and needed services. We support maintaining a funding level of at least $25 million.

HomeAid

Finally, under the Economic Development initiative, we support funding for the HomeAid America program, whose mission is to build or renovate shelters for tem-

porarily homeless men, women, and children across America by establishing chapters in affiliation with home building associations throughout the country. We are very appreciative of the $490,000 earmark for fiscal year 2002, and we look forward to working with the Committee next year on continued funding.

Housing Preservation—Restructuring the Portfolio of HUD-Assisted Multifamily Properties

HUD, through the Office of Multifamily Housing Assistance Restructuring (OMHAR), is carrying out a program, created by Congress in 1996, to restructured the portfolio of HUD-assisted multifamily properties. The goal of the program, often referred to as "Mark-to-Market," is to keep properties with expiring Federal rental assistance contracts in the affordable housing stock while, at the same time, reducing the amount of Federal budget dollars required to provide rental assistance to residents of those properties. This is accomplished by either a restructuring of the mortgage and a rent reduction or by just a rent reduction.

NAHB strongly supports the goals of the Mark-to-Market program and looks forward to the completion of work by Congress to pass reauthorization legislation for the program, which sunsets this year. And, as mentioned earlier, we urge Congress to continue to provide the funding needed by HUD to renew the rental assistance contracts on the Mark-to Market properties. This initiative is the only Federal program available to preserve this major component of our stock of affordable rental housing, representing more than 1.3 million housing units. While the program got off to a slow start, it appears to be picking up momentum and clearly has the potential for making significant progress toward the goals it is charged to pursue.

As the program moves forward, some improvements and clarifications should be made in administrative processes and procedures. In particular, NAHB is very interested in working with HUD and other interested parties to develop more accurate and equitable processes for determining rents and to improve the operation and productivity of the Mark-to-Market program.

New Rental Housing Production Program

Despite the Nation's general prosperity, there continues to be a critical shortage of affordable rental housing. As mentioned previously, two recent reports, one by the Center for Housing Policy, "Paycheck to Paycheck: Working Families and the Cost of Housing in America," and the second, the Joint Center for Housing Studies of Harvard University's The State of the Nation's Housing Annual Report 2001, have extensively documented the growing problem of meeting the housing needs of 3.7 million households who are the "working poor." The Center is focusing on this group because there are signs of persistent and worsening housing affordability for them in all parts of the country, including cities, suburbs, and rural areas, despite the recent economic prosperity.

Workers in municipal jobs, such as teachers and police officers, and in the services sectors, such as janitors, licensed practical nurses, and salespeople, fall into this group of people and are a large and growing component of many local economies. The growth in such jobs, however, is not matched by the growth in the supply of affordable housing, creating an increasingly difficult situation for both renters and homeowners.

NAHB believes there is a need for a new multifamily rental housing production program that would meet the affordable housing needs of households with incomes between 60 and 100 percent of AMI, America's "working poor," as described in the reports. These households are not eligible for housing assistance through most current Federal housing programs.

NAHB has developed a program that is designed to increase and maintain the affordable housing stock over the long term. The program would not require large Federal budget outlays. Instead, affordability would be generated through lower interest rates available by securities backed by the full faith and credit of the Federal Government. Federal subsidies would be required in some instances and would be provided through modest interest-rate buydowns. A portion of the units (up to 25 percent) would serve households below 60 percent of AMI, although a modified rental assistance voucher program would be needed to assist these households.

The program is designed to use Government resources as efficiently as possible, with the amount of subsidy required per development small relative to the amount of housing produced. A wide range of households will be served by producing mixed-income housing. The program ensures long-term affordability (40 years+) and provides incentives to owners through the deferral of profits, contingent on property performance (both financially and physically) until long-term affordability is satisfied. It builds in adequate reserves from cashflow for on-going maintenance and future capital improvements. Finally, the NAHB proposal avoids the establishment of

new program bureaucracy, because it could be administered in the same fashion as the HOME, CDBG, and tax credit programs.

NAHB believes that the establishment of a new rental housing production program should be a top housing priority for the Administration and Congress in the coming year. Several bills have already been introduced in Congress, and the Millennial Housing Commission is expected to offer a recommendation on a new rental production program as well. NAHB is committed to continuing its work with its housing partners, HUD, and Congress toward this goal.

Economic Stimulus

HUD's focus should also reflect the current economic situation, and the realization that housing can and should play a major role in leading an economic recovery. To that end, NAHB has proposed an economic stimulus package designed to produce jobs, income and new revenue to Federal, State and local governments. Among the initiatives included in this package are a temporary first-time home buyer tax credit, a temporary increase in the low-income housing tax credit (LIETC), and a temporary removal of the tax-exempt bond ceiling.

The NAHB proposal for a 10 percent first-time home buyer tax credit is similar to the one proposed by President Bush in 1992. The estimated economic impact of this credit would total $27 billion in labor and business income in the community where the homes are built, and $15.6 billion to workers outside the area producing goods and services for the new homes. This translates into an additional 1.2 million jobs created. The local governments in the area would see an added $4.3 billion and all other governments would receive an additional $18.7 billion. The Federal Government's revenues would increase by $15.8 billion alone.

The temporary increase in the dollar amount of LIHTC's awarded to States would be similar in magnitude to the permanent per capita increase enacted in the recent past. This would stimulate the production of $28,000 additional low-income units, $780 million in income, and support over 21,000 full-time jobs.

Tax-exempt bonds are used by themselves and in combination with the LIHTC and other programs to produce affordable rental housing. To achieve a strong short-term economic stimulus, we recommend temporarily removing the limits on the amount of private activity tax-exempt bonds a State may issue. We estimate the impact on multifamily production would be an additional 15,000 units, generating $470,000 million in income and 13,300 full-time jobs. In addition to this, expansion of other private activities financed by these bonds would provide further stimulus.

NAHB's economic stimulus package also targets two HUD programs, recommending increases in the FHA multifamily mortgage limits and HOME grant spending. The 25 percent FHA loan limit increase in the fiscal year 2002 appropriations bill was a step in the right direction and should provide an annual economic stimulus on the order of 4,000 units of new construction and $150 million in wages, enough to support over 4,000 full-time jobs. As mentioned previously, however, that bill failed to provide further increases for high-cost metropolitan areas, such as Boston, New York, and San Francisco. Not only are additional increases necessary to make the program work effectively in those areas, we estimate that the total economic impact in terms of income, jobs, and Government revenue generated would be roughly one-fourth greater than the stimulus provided by the 25 percent loan limit increase alone.

We have already expressed our support for the HOME program as a proven mechanism for producing affordable housing. In addition to an annual funding level of at least $2 billion, we recommend a one-time increase in the dollar amount of HOME grants awarded to States as a desirable way to provide a short-term boost to the U.S. economy stimulus. An increase of $500 million would produce approximately 6,400 new multifamily units, which would generate about $175 million in wages and support 4,800 full-time jobs.

Single Family FHA

A 1996 change in a HUD regulation may create problems for 10 year warranty programs and for the home builders using those programs. The result of the regulation will be to increase the risks to warranty providers, which will in turn result in increased costs for warranty coverage.

On July 9, 1996, HUD published a Final Rule that dealt with a broad range of issues relating to FHA-insured single-family loans. HUD viewed these changes as "technical improvements" and, therefore, did not publish the proposed changes for public comment prior to publication in final form.

The problem relating to 10 year insurance-backed warranty programs arises from a change in the Code of Federal Regulations, section 203.204(g) wherein the word

"or" in the following sentence is changed to "and." Before this change, this section read as follows:

> ". . . A Plan must contain prearbitration conciliation provisions at no cost to the homeowner, or provision for judicial resolution of disputes, but arbitration, which must be available to a homeowner during the entire term of the coverage contract, must be an assured recourse for a dissatisfied homeowner."

This change did not come to light until recently, when HUD told a large home building company that their warranty program, based on an in-house risk retention group, would have to contain the "and" language.

Warranty programs are reviewed and approved by HUD on a 24-month cycle. At the time of the last renewal in 1999, one major warranty provider was permitted by HUD to retain the "or" language in its warranty. Another major warranty firm has addressed HUD's requirements by adding an addendum to their warranty documents that permits the judicial alternative on warranties for homes purchased using FHA-insured loans while retaining an arbitration-only warranty for conventionally financed homes.

NAHB is concerned that, by requiring warrantors to offer the judicial alternative, HUD is opening the door for homeowner lawsuits, which greatly increases the risk exposure to warranty providers thereby adding to consumer home buying costs, since any additional risk borne by warranty providers would be passed along to home buyers in the form of increased premiums. For example, one warranty provider has indicated its average warranty premium would increase approximately 29 percent on warranties that offer the home buyer a judicial option and premiums would increase by a significantly larger margin for high-risk states such as Texas and Colorado.

In addition, a Uniform Limited Warranty, which was proposed to HUD by NAHB's Home Buyer Warranty Task Force in May 2000, calls for binding arbitration. Therefore, the current rule also negatively impacts the proposed Uniform Limited Warranty.

NAHB believes that the Federal Arbitration Act and recent case law support the use of binding arbitration as a legal and desirable method of resolving disputes in warranty matters and that HUD's requirement that a judicial option must be offered to homeowners, while legal, is not necessary or desirable.

NAHB agrees with home builders and warranty firms that arbitration is a fair and legal means of resolving warranty disputes, and that HUD should not mandate that 10 year insurance-backed warranties contain a provision offering home buyers the right to seek either a judicial remedy or arbitration.

Surveys and Housing Information

The budget of the Office of Policy Development and Research (PD&R) supports several current surveys of housing activity and conditions. HUD sponsors current construction activity surveys of homes built for sale, apartments for rent, and manufactured housing produced. These vital housing indicators are important to the industry and to the rest of the economy as indicators of the health of the housing sector.

PD&R also supports the American Housing Survey, a survey of the condition of the housing stock and household characteristics. The survey has been conducted since 1973 and provides the housing community with consistent information about the American housing stock, condition, affordability, and change. We urge you to continue funding both of these information sources.

In addition, there are a number of areas where a lack of data is hampering efforts to develop new sources of financing for housing. For example, more consistent and comprehensive data on multifamily properties and related mortgages are needed before additional steps can be taken to develop new ways to attract funds for affordable multifamily housing from the capital markets. Sufficient funding should be available to support such data collection efforts by PD&R.

Conclusion

Mr. Chairman, NAHB appreciates the opportunity to share our priorities and concerns with you as the fiscal year 2003 HUD budget is developed. We look forward to continuing to work with Congress, HUD, and our industry partners in achieving the goal of a decent and safe home for every American.

PREPARED STATEMENT OF KURT CREAGER

PRESIDENT, NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS
AND CHIEF EXECUTIVE OFFICER, VANCOUVER HOUSING AUTHORITY
VANCOUVER, WASHINGTON

NOVEMBER 29, 2001

Good morning, Mr. Chairman and Members of the Banking Committee. My name is Kurt Creager and I am here in my capacity as President of the National Association of Housing and Redevelopment Officials (NAHRO). NAHRO is the Nation's oldest and largest membership organization in the United States devoted to affordable housing and community development. NAHRO represents more than 5,600 individuals, including approximately 2,500 housing agencies. NAHRO members own or manage more than 1.3 million units of public housing, representing 97 percent of all public housing in the United States. In addition, our members administer more than 1.3 million, or 93 percent, of Section 8 vouchers. Funds used by NAHRO's Community Development/Redevelopment members serve communities with populations of more than 148 million.

I am also the CEO of the Vancouver Housing Authority (VHA) in Vancouver, Washington. The VHA is a countywide housing provider, immediately across the Columbia River from Portland, Oregon. Standard and Poor's has classified the VHA as a "Strong" local housing authority with a "Stable" outlook. We are a HUD high-performer and were part of the first wave of Moving-to-Work (MTW) agencies selected by HUD for the MTW deregulation demonstration. We are responsible for about 4,500 dwelling units, about half of which are Federally financed and half of which are privately financed with tax exempt bonds, tax credits, and/or State and local resources. Our portfolio also is made up of 575 public housing units and 1,850 vouchers.

Thank you for the opportunity to testify before you on the recently approved fiscal year 2002 budget for the Department of Housing and Urban Development (HUD) and provide comments on the pending fiscal year 2003 budget. Before I begin my remarks, it is important to understand that while NAHRO may have disagreements with the budget proposed by this Administration, we are continuing to work with its members to find areas of common ground.

Unfortunately, the President's proposed fiscal year 2002 budget misrepresented the facts on how key housing programs, such as the Capital Fund and the drug elimination program, are administered. This misrepresentation, which I will reference in my comments, established a framework of discussion during the appropriation process that distorted the significant amount of work that is being done in communities throughout the country to serve the needs of our Nation's poorest citizens. As a result of some of this distortion, we witnessed cuts to many key programs that generate jobs and address local needs. In our view, the fiscal year 2002 budget falls short of meeting local needs and illustrates the need for additional resources in the fiscal year 2003 budget.

Stimulus Debate Misses Opportunity

Clearly, the attacks that occurred on September 11 have forced Congress to reevaluate its priorities. However, while Congress attempts to determine how to respond to terrorism, it must understand that a strong financial commitment to local housing and community development needs is a means to strengthen homeland security and a means to stimulate the economy. The exclusion of housing and community development programs from the stimulus debate that has consumed Washington over the last 2 months is a missed opportunity to highlight the benefits that HUD-funded programs provide to local economies. These programs infuse local economies with resources that create jobs, build housing units, and improve infrastructure projects. For example, a new production program attached to a stimulus bill will immediately create jobs in the construction and building supply industries, while providing housing for low- and extremely low-income households.

Our country needs a new production program that provides funds directly to local communities to build housing units for low- and moderate-income households. Organizations such as NAHRO have been advocating for a new affordable housing production program for close to 2 years. The need for increasing the supply of affordable housing is well documented and does not need to be repeated here. A production program will provide an infusion of dollars that can help spur local economies, address pressing affordable housing needs and sending a clear message that the Federal Government has not allowed the war on terrorism to deflect resources from pressing homeland needs.

Even if a production program was not enacted, funding of HUD programs creates jobs. Investment in Federal programs generates a multiplying effect in local communities. For example, Washington State University's Real Estate Research Center determined that residential real estate is the second largest contributor to the State's economy, after international trade. The Boeing Company is fifth and Microsoft is sixth, in comparison. Washington State is heavily dependent on trade. It leads the Nation in unemployment with a seasonally adjusted unemployment rate of 6.6. percent in October. This rate was computed before any of Boeing's 30,000 layoffs took effect.

An investment in housing is a good investment in local and State economies. This is as true today as it was in 1983 when the Congress appropriated supplemental CDBG funds to entitlement cities, urban counties and States. NAHRO analysis, by department, of the major programs funded (CDBG, HOME, Capital Fund, Operating Fund, HOPE VI, etc.) indicates that approximately 680,000 jobs are either created or sustained, through these programs, in local communities throughout the country. A cut to these programs means that jobs will be lost, while an increase means that jobs will be gained. It is also important to note that the population served by NAHRO members is among the poorest in our society. The downturn in the economy has resulted in a loss of the marginal jobs low-income workers tend to hold. As their incomes decrease, the demands for public housing, Section 8, and other Federally supported services increase.

Fiscal Year 2002 Budget and Its Implications for Fiscal Year 2003

The fiscal year 2002 budget sends a very dangerous message to local communities struggling to meet the basic needs of their constituents. For example, Congress appropriated $68 million less this year (fiscal year 2002) for the CDBG formula than in fiscal year 2001. The fiscal year 2002 VA/HUD bill contains $4.34 billion for the CDBG formula, compared to $4.409 in fiscal year 2001. All of this has occurred despite these programs' proven track record in creating new jobs. According to the Department, local programs funded by CDBG created more than 116,000 jobs in fiscal year 2001. Over the course of its 25 year history, the CBDG program generated, on average, approximately 87,000 jobs per year, according to NAHRO's report, More Than Bricks and Mortar: The Economic Impact of the Community Development Block Grant Program. In addition to decreased funding, formula allocations to entitlement communities will decrease due to the higher number of entitlement communities receiving formula allocations. Population data from the 2000 Census led to the establishment of more than 20 new entitlement communities over the past 2 years. Therefore, more communities will share a decreased pot of formula funding in fiscal year 2002. CDBG also benefits communities in a variety of ways. For example, in fiscal year 2001, 170,000 homes were repaired as a result of CDBG funds. CDBG also funds daycare centers for working families, nonprofits offering services to low-income families, and infrastructure improvements. The program provides localities with the needed flexibility to address community needs in a timely fashion.

Additionally, the HOME program is another stimulator of local economies. In the fiscal year 2002 budget, the HOME program was essentially level funded at $1.846 billion. However, it did include a $50 million set-aside for a Down Payment Assistance Initiative, subject to subsequent authorizing legislation that must be passed by June 2002. This is the first year that HOME has had a set-aside taken from the formula to create a new program. Most distressing about this set-aside is that it already is an eligible activity under HOME. Many communities are already providing down payment assistance using HOME dollars. This new program simply duplicates existing activities and does not give communities the flexibility to best meet their local needs. NAHRO strongly opposes this set-aside. In fiscal year 2003, the HOME formula should be funded at $2 billion with no set-asides.

It is important to note that the HOME program has never been fully funded at the authorized level of $2 billion. This is unfortunate given the program's success since its inception. Since it is beginning, the HOME program has produced, on average, 50,000 units a year and has created approximately 400,000 units of affordable housing for low- and moderate-income households. In fiscal year 2001, HOME produced approximately 70,000 units of affordable housing.

Public Housing Capital Fund

We appreciate Congress's efforts to restore the deep cut proposed by the Administration to the Capital Fund in fiscal year 2002. Despite Congressional efforts, the Capital Fund still experienced a 5.5 percent reduction from the fiscal year 2001 level of $3 billion. We hope that the focus for fiscal year 2003 will be to increase funding to $3.5 billion; expand flexibility in the use of these funds; enhance support for agencies that seek to develop and use new financing tools; and provide greater

emphasis on public-private partnerships to close the gap between Federal funds and program needs.

The Administration's proposal created an unfortunate distortion of the facts, which made it appear that nearly $6 billion was unexpended and $3 billion unobligated through fiscal year 2000. In fact, though, fiscal year 2000 funds should not have been included since the obligation and expenditure time limits have not yet occurred. We estimate the amount to be $2.6 billion unspent and $1 billion unobligated through fiscal year 1999 funding. We recognize that there are a few large agencies that do have problems with obligation and expenditures and a few that have legitimate delays.

We also continue to be concerned about the mismatch between the Administration's push toward more marketable, mixed-income communities, including those with incomes below 30 percent of area median, and the downturn in funding for capital improvements. The funds appropriated, which are subject to set-asides, will not help housing agencies reach the goals for public housing set by Congress and the Administration.

Building on the success of the HOPE VI program, the Quality Housing and Work Responsibility Act of 1998 (QHWRA) provides housing agencies with the flexibility to leverage their capital funds to attract more private investment to address backlogged modernization needs that have resulted from this provision. Chicago and Washington, DC have already sold securities backed by the future revenue anticipated from the Capital Grant. NAHRO agrees that housing agencies must be partners with the private sector. For that reason, NAHRO has formed a partnership with the Bank of America, the Enterprise Foundation, and the Local Initiatives Support Corporation. This partnership, the NAHRO Access Alliance, will provide local housing agencies with opportunities to access the capital markets. Reductions in the Capital Fund undercuts the innovative activities we want to achieve. Any reduction in Public Housing Capital Fund sends an alarming signal to private markets interested in participating in mixed-finance agreements with local housing agencies. We must be seen as reliable partners by the capital markets to attract significant new private capital. Our reliability will be called into question should the Public Housing Capital Fund be reduced.

We ask that in fiscal year 2003, Congress provide at least $3.5 billion for the Capital Fund to ensure that resources are available to address capital needs. This will underscore Congressional commitment to foster public/private partnerships that will meet the growing need for quality housing affordable to extremely low-income and low-income households.

Public Housing Drug Elimination Program (PHDEP)

The decision to eliminate the Public Housing Drug Elimination Program (PHDEP) is very disconcerting at a time when security concerns have increased dramatically as a result of the September 11 terrorist attacks. The Drug Elimination Grant Program is an effective tool in reducing crime and drug activity in public housing throughout the country. In fact, there is a great deal of support for prevention programs that have proven to alter the behavior of at-risk populations and effectively address security concerns within local communities. *The Journal of the American Medical Association* concluded that intensive parent-child involvement is critically important to enabling teens to avoid substance abuse and other at-risk behaviors. A significant percentage of PHDEP funds go to activities designed to facilitate such involvement and alter the environmental influences, risks, and expectations that may lead youth to drug abuse or violent crime.

Sixty-five percent of the funds are spent on prevention and law enforcement activities. Prevention is less costly than eradicating an entrenched criminal element. Eradicating drug-related and violent crime from a community is costly—more costly than the level of law enforcement already provided by a jurisdiction. PHDEP provided funds for housing agencies to pay for the additional services they needed to eradicate these problems. Establishing new behavior and expectation after eradication requires services targeted to at-risk youth and adults—PHDEP grantees spent 35 percent of their funds on these efforts.

Rolling PHDEP funds into the fiscal year 2002 Operating Fund budget may provide a few extra dollars to all local housing agencies (LHA's), but will not provide funds at the level needed to sustain youth prevention programming and other activities that create and maintain safe communities. LHA's faced with the decision to pay utility bills to keep residents warm or pay for drug and crime prevention efforts, will obviously deal with their most immediate and vital needs. PHDEP funds also have leveraged other Federal and local funds to expand services for their communities. Furthermore, the events of September 11 have placed additional demands on local police departments to increase security in areas designated as high-priority

areas. Many of these local police departments will be unable to compensate for the lost drug grant funds that were directed to protect public housing residents.

During the hearings on the fiscal year 2002 budget, Secretary Mel Martinez said it was virtually impossible to measure PHDEP's program successes. However, HUD requires agencies to submit data explaining their accomplishments and has published studies, guidebooks, and GIS mapping software to measure the success of the program.

In fiscal year 2002, the Operating Fund has been boosted by about $250 million from the merger of PHDEP funds. These funds could result in housing agencies receiving at least 100 percent of their operating subsidy request. But the increase comes at the expense of the PHDEP program. There is no net gain in funding; in fact, funding for safety and security is now lower than ever—the lower amount of $250 million must be divided among all 3,400 housing authorities. Programming and activities formerly supported by PHDEP funds may be discontinued in order for housing agencies to meet operating expense needs. NAHRO has already received calls from many agencies preparing their Agency Plans for fiscal year 2002 who are struggling with these decisions.

NAHRO supports funding the Operating Fund at least at the level of $3.5 billion for fiscal year 2003, but not at the expense of eliminating the drug elimination program. This funding level is critical as HUD receives information from the Harvard Cost Study Group that is attempting to determine the appropriate formula for the Operating Fund. There are a number of issues in the current approach that concerns NAHRO. These include the methodology, the public process, and the progress of the study. However, our principal concern is that the researchers are not studying the real costs of operating public housing. They are using a proxy-based study that uses the Federal Housing Administration (FHA) data. The researchers will simply approximate the cost of public housing by using the FHA cost data and apply an adjustment factor to compensate for public housing's unique operating environment.

NAHRO is very concerned with this adjustment factor. It is unclear how the study team will craft a numeric adjustment factor from qualitative data that it plans to collect by questionnaire. Combined with the use of nonpublic housing cost data, our concern grows since the cost study will do little to accurately demonstrate the cost of operating public housing, and will be of little use in finalizing the Operating Fund formula. Throughout their work, the study team has maintained that it would be too expensive and take too long to collect data from public housing agencies. We disagree and believe the tools can be developed to help housing agencies calculate their actual costs from the information they now maintain, but do not submit to the Department. They have not been asked to submit this data. To reject this method is simply losing an opportunity to improve efficiency and effectiveness in public housing and understand its true operating costs.

Revitalization of Severely Distressed Public Housing (HOPE VI)

NAHRO strongly supports reauthorization for the HOPE VI program with funding at $625 million for fiscal year 2003. We support programmatic changes that would include more small agencies as grantees, and adapt application and grant management procedures to small agencies. Appropriations for the program should be increased to assure that grants would be awarded to previously submitted and approvable applicants. The program should continue to award grants to additional, new applicants. The definition of "severely distressed public housing" should be amended to enable local housing agencies to serve all public housing populations in addition to families; to give equal emphasis to physical and social or community distress; and to reduce the emphasis on, or requirement for, demolition of public housing units as a criteria for approving an application or redevelopment plan. Programmatic and process changes must be made to improve the application, selection, and award process and to simplify implementation of the program, especially for small agencies.

NAHRO supports the provision in the fiscal year 2002 appropriations conference report that requires HUD to provide Congress with a report covering the program's best practices, lessons learned, impact on surrounding communities, and the extent to which the program has leveraged private investments and revitalized economic development in the target communities. We believe this would be a useful analysis that can guide the program in the future.

Section 8

The fiscal year 2002 appropriations bill raises two critical budget issues that need to be addressed in the Section 8 program. NAHRO is encouraged by the fact that the fiscal year 2002 appropriations bill includes sufficient resources to ensure that all expiring Section 8 contracts will be renewed. We are also encouraged that report

language was included that directs the Department to provide the necessary resources for agencies that will require more than 1 month of reserves to serve their authorized number of families. The Department agrees that housing agencies in need of the additional resources will receive them.

Housing agencies need assurances that Congress will continue to renew all Section 8 contracts in succeeding years and ensure that sufficient reserves are available when program costs become excessive. The Section 8 program is a market-driven program with costs that can vary from year to year. Successful implementation of the Section 8 program is complicated by the many factors that affect utilization of the vouchers. Any one of these issues, or a combination of issues, can impact a recipient's ability to use their voucher.

Local Market

Both the cost and availability of units are the two principal factors that have the biggest impact on the Section 8 program. Between 1997 and 1999, the number of units with rents affordable to households with incomes below 50 percent of area median income (AMI) dropped by 1.1 million units, a loss of 7 percent in the affordable housing stock. HUD's A Report On Worst Case Housing Needs in 1999 found that 4.9 million households endure worst-case housing needs, including 10.9 million people. Among this group are 3.6 million children, 1.4 million elderly, and some 1.3 million disabled adults. Over three-fourths of renters with worst-case housing needs, had a severe rent burden of 50 percent or more as their only housing problem. In addition, waiting lists for housing assistance are longer than ever before.

The national call for a new production program geared toward providing new units for those below 50 percent of median income indicates that there is a significant need for housing units for our Nation's poor. Available housing resources for those earning less than 50 percent of median income are dwindling throughout the country. When private market rental units are available, families are spending more than 50 percent of their income for rents due to the cost of the unit.

Landlord Participation

Landlord participation determines the number of units that are available for voucher holders. When the economy is good, landlords often choose not to participate in the program. They can charge higher rents to unassisted households without worry about paper work or compliance with program regulations.

Housing Agency Management

Much has been said about the ability of housing agencies to administer the Section 8 program. According to HUD, 92 percent of current vouchers are being used in communities. To put this in perspective, if our school systems were graduating students with a grade point average equal to the utilization rate of Section 8, education reform would be unnecessary. Clearly, we must find a way to more successfully use the remaining 8 percent of vouchers. Where management failures are the problem, HUD should exercise its authority to address them. The few management failures that exist do not warrant a wholesale change in the Administration of the program. Housing agencies are in the best position to administer this program. They have a track record of working with landlords, know their local markets, and spend a great deal of time counseling voucher holders in helping secure housing. There are many factors, outside an agency's control, that affect its ability to assist families in finding housing.

Local zoning policies determine the type and location of housing in communities. These policies, controlled by the local government, dictate where certain types of housing can be built and whether they are multifamily or single-family dwelling units. This impacts where families may look for units, the cost of those units, and the availability of units. Family decisions also affect where vouchers are used. Proximity to family, work, church, etc. also factor into the search for housing and is not a reflection of mismanagement.

Congressional and HUD Actions Needed To Improve the Program

Fair Market Rents

Fair market rents (FMR's) are estimates of rent plus the cost of utilities. They are market-wide estimates of the rent subsidy that should be provided to families to allow them to rent standard quality housing throughout the geographic area's competitive market. Despite the rental assistance program's overall success, NAHRO believes there is a need to increase the FMR to the 50th percentile for all communities to help alleviate the increasing concern of underutilized vouchers. NAHRO completed a survey in 2000 that demonstrated that increasing the FMR would help families find housing. HUD recognized the increasingly difficult task of

finding sufficient numbers of units at a lower percentile and authorized increases in a limited number of jurisdictions. While the increase will cost the Federal Government more money, the reality is that it will guarantee that more voucher holders will be successful in their search for housing.

One criticism of the Section 8 program is that the vouchers are underutilized in some markets. Increasing the FMR provides recipients of this assistance with greater housing choices in order to utilize the vouchers they have been given. HUD took the appropriate first step when it raised the FMR to the 50th percentile in fiscal year 2001 for a limited number of communities. There must be increases in resources to extend this increased FMR to all communities.

Forty Percent Cap

In 1998, statutory changes limited the family's contribution on any newly executed Section 8 contract (regardless of whether the family is new to the Section 8 program or just moving to a different Section 8 unit) to 40 percent of the family's adjusted income. There are no exceptions to this limit. NAHRO believes participants in the program should have the flexibility to pay more than 40 percent of their income for the initial rent to secure an apartment. Many NAHRO members have raised concerns that participants must turn down units because they are prevented from paying more than 40 percent of their income to secure the apartment. We agree with the concern that families should not pay an excessive amount of their income on rent, however, if a family is willing to exceed the 40 percent cap, they should have the option to do so if that is necessary to secure an apartment of their choice. If they are paying 42 to 45 percent of their income for a Section 8 unit, it is still less than they are paying in the open market. One solution is to allow housing agencies to base the 40 percent cap on gross income versus adjusted income.

Flexible Use of Housing Assistance Payment (HAP)

The HAP is the portion of assistance that is paid to the landlord. The tenant is responsible for the balance of the rent amount. Because some voucher holders are unable to find units, many housing agencies believe they should have greater flexibility in using the HAP for purposes that will assist participants in securing housing. This could include assisting with security deposits, credit problems, moving expenses, etc. If housing authorities have greater flexibility in using the HAP, it allows more ability to provide housing opportunities for low-income families.

Any unused Section 8 funds should be placed back in the program. Congress needs to exercise more care in deciding whether there should be further reductions in reserve accounts. NAHRO contends Congress needs to enact language codifying a reserve account for the program. Without a codified reserve, housing agencies will not know for certain whether there will be a buffer for rising market costs.

Rescissions

The second critical issue pertains to rescission. Dropping utilization rates are used to justify rescissions to the program. The fiscal year 2002 appropriations bill rescinds $1.2 billion from unobligated balances remaining from funds appropriated to the HUD's Annual Contributions for Assisted Housing or any other HUD account for fiscal year 2001 and prior years. HUD must meet the rescission by September 30, 2002. The final bill includes language proposed by the House to prohibit the rescission of funds governed by statutory reallocation provisions, which is welcomed. However, there is a propensity to rescind Section 8 dollars at an alarming rate.

In the last several years, rescissions have been included in the VA, HUD appropriations bill in the neighborhood of $1 billion per year. At the same time, 4.9 million families with worst-case housing needs, a third of whom are on waiting lists and two-thirds who are not, spend more than half of their income on housing costs. Many families fortunate enough to reach the top of waiting lists still end up returning their vouchers after being unsuccessful in finding an affordable unit or a landlord willing to rent to a voucher holder. Utilization rates are of such a concern that HUD came up with a success rate payment standard a year ago, in recognition that few voucher holders could secure housing at the 40th percentile, even when LHA's were using their maximum allowable payment standard.

The tools needed to ensure that the voucher program ebbs and flows with the market simply do not exist in the program. However, housing agencies are held responsible for a family's inability to find a unit. To add insult to injury, rather than recycling excess reserve funds throughout the year, HUD will begin to permanently reduce an LHA's annual budget authority if it does not achieve a 95 percent leasing rate. The aforementioned statutory measures are critical for housing agencies to achieve some measure of ability to help poor people find decent housing.

Conclusion

The HUD budget must be increased in direct proportion to the need that exists in local communities. I appreciate and respect the fact that tough decisions needed to be made for the fiscal year 2002 budget. I also appreciate the circumstances surrounding September 11 and how it has affected the priorities in Washington. However, as we approach the fiscal year 2003 budget, we must be mindful of the fact that we are making great advances in the health of cities and improved housing quality. Yet, we have far to go in the area of affordability, which is why we need a commitment to these programs. The need for affordable housing grows every day. It is our hope that the fiscal year 2003 budget will be an improvement on the fiscal year 2002 and provide some response to the needs of our communities.

Yet as the Nation is now three-quarters into a recession, it is important that the most vulnerable citizens—the homeless, disabled, and seniors—are not forced to bear the burden of the need to pay for homeland security or nation-building abroad. Instead, this is a time to redouble our efforts to help people move from welfare to work and to ensure that our cities, our counties and our States are part of a concerted effort to stimulate the national economy. We have a huge investment in affordable housing and safe, viable communities across the country. We need not sacrifice their future in the fiscal year 2003 budget debate. It is our hope that the fiscal year 2003 budget will be an improvement on the fiscal year 2002 and provide some response to the needs of our communities.

Thank you, Mr. Chairman, for the opportunity to address the Committee today. I would be happy to respond to questions that you deem appropriate.

Attachment One

The following is a summary of programs that were highlighted in a NAHRO brochure on PHDEP extolling the benefits of the Drug Elimination Grant Program. The brochure was published in April.

Drug Elimination Committees
New York City Housing Authority, New York City, New York

To combat the twin problems of drug-abuse and drug-related crime, which affect the lives of its tenants, the New York City Housing Authority established Drug-Elimination Committees in 85 Federally sponsored developments. Funded by HUD's Drug Elimination Program, Drug Elimination Committees are grass-roots coalitions of tenants, housing authority staff, law enforcement officials, and community leaders who joined together to identify specific drug-elimination needs of each community where they operate. Drug Elimination Committees are the central local unit with responsibility for implementation of drug-prevention strategies.

The Sky's The Limit School Incentive Program
Housing Authority of the City of Reno, Reno, Nevada

The School Incentive Program was created to help students strive for excellence and provide alternatives to gang and drug involvement. It is part of the housing authority's Public Housing Drug Elimination Program (PHDEP). The program is tailored to each student. Students set their own goals for each grading period. Goals are set in academics, social citizenship, and school attendance. When a child successfully attains his or her goal, a reward is presented in a ceremony at the monthly resident council meeting. Thirty-seven percent of the youth living in Reno public housing complexes participate.

Comprehensive Drug Elimination Program
Richmond Housing Authority, Richmond, California

The Richmond Housing Authority, the Richmond Police Department, a resident management corporation, and two community-based agencies have developed an innovative drug elimination program. The program implements a nationally acknowledged innovative and effective school-based drug intervention model within a public housing community. The model comprises an intensive and interrelated set of services for youth and their parents, which include recreational and socialization services, family and individual counseling, parent support and advocacy, and education and environmental support for the public housing community. The program funds a Family Drug Counselor, a Family Services Counselor, and Recreation Counselors.

The RHA's major role has been to function as a facilitator to bring together the various agencies to develop a comprehensive drug elimination program. PHDEP provides $250,000. Additional local resources from the City and the Police Department valued over $500,000 have been committed to support the goals of the program.

Preserve Our Neighborhoods
Housing Authority of the City of Auburn, Auburn, Alabama

The Auburn Housing Authority developed "Preserve Our Neighborhoods" in response to the illegal drug activities that had been taking place in the city's public housing communities in recent years. The program is based on the principles of enforcement and legal actions against those involved in the illegal drug trade and was created through cooperative efforts between the housing authority, the City of Auburn, the Auburn Police Department, and the Auburn Housing Authority Tenant Council. Two activities that have proven extremely successful are the Police Foot Patrols and "No Trespassing" letters. There has been a 42 percent decrease in drug-related activity since the program began 24 months ago. The City of Auburn pays for approximately one-third of this program.

Nueva Maravilla Drug Elimination Program
Housing Authority of the City of Los Angeles, Los Angeles, California

Residents living in Nueva Maravilla Housing Development located in East Los Angeles were exposed routinely to drug dealing, gang violence, and related criminal activity. The Housing Authority of the City of Los Angeles put into effect a comprehensive Drug Elimination Program funded by HUD to address these problems. The major components of this program are the employment of narcotics and gang investigators, a multiagency Anti-Drug Task Force, prevention and intervention programs, a family development program, and physical site security. Surveys performed at the inception of the program and a year later indicate that it has reduced the number of crimes, eased residents' fears, and improved the overall quality of life in the community. Funding was provided by PHDEP and was matched with funds from the housing authority.

Economic Self-Sufficiency
Housing Authority of the City of Meriden, Meriden, Connecticut

The Drug Elimination Program combats drugs and crime and provides Meriden Housing Authority's (MHA) residents with the tools necessary to promote personal betterment and achieve self-sufficiency. While continuing to battle crime, MHA's program has focused on Welfare-to-Work activities for adults. The housing authority's efforts revolve around facilitating community collaboration in the program to the greatest extent possible. A variety of funding sources were sought out and combined with community volunteers to increase and improve the scope of resident services. The program seeks to increase resident employability through computer-based training and job-placement assistance. Community agencies continue to support and strengthen MHA's efforts to achieve its goals.

Combating Fear and Hopelessness
Meriden Housing Authority, Meriden, Connecticut

The Meriden Housing Authority's Drug Elimination Program also was created to answer a need of public housing residents to feel safe in their own homes. Drug dealing, gang activity, and shootings had produced a sense of fear and hopelessness among people living in Meriden's public housing developments. Foot patrols, educational and recreational programs, parent tutoring programs, and a resource center have addressed the feeling of despair that had plagued the community. In place of these feelings are those of hope and increased opportunity. Over 25 arrests have taken place and public housing residents have stated that they perceive a reduction in crime.

Neighborhood Assistance Office
Springfield Metropolitan Housing Authority, Springfield, Ohio

The drug problem at the Springfield Metropolitan Housing Authority had gotten out of control. The housing authority used capital improvement funding to hire off-duty Springfield city police officers to assist in the eradication of crime from the area. Later, PHDEP grants gave the SMHA the opportunity to open the Neighborhood Assistance Office to provide additional support to the residents in the Springfield Metropolitan Housing Authority's successful battle to remedy the drug problem.

Accelerating Public Housing Drug Eradication
Paducah Housing Authority, Paducah, Kentucky

To control the influx of crack into the community, the Paducah Police Department and the Paducah Housing Authority accelerated its Public Housing Drug Eradication Program by focusing on taking marketing space away from drug dealers and their customers. In the spirit of community-oriented policing, this new approach goes beyond the criminal and involves direct contact with the public housing

community. The creation of the Thomas Jefferson Police Substation within the public housing community has resulted in an increase in drug arrests and a decrease in drug-related activity. Funding came from PHDEP and the Paducah Police Department.

Community Policing Reduces Drug-Related Activity
Housing Authority of the County of Salt Lake, Salt Lake City, Utah

The Housing Authority of the County of Salt Lake (HACSL) sponsors its Community Policing Program under the drug elimination program for nine public housing neighborhoods. Salt Lake County Sheriff's Department works closely with public housing and resident services staff to employ community police deputies. The deputies provide surveillance, conduct investigations, attend tenant meetings, meet monthly with staff from the program and HACSL housing managers, provide police reports about criminal activity, and keep program staff posted about new problems. The Community Policing Program has resulted in a reduction in drug activity, gang problems, vandalism, and graffiti. These programs demonstrate that PHDEP is making a difference in many communities

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PREPARED STATEMENT OF F. BARTON HARVEY

CHAIRMAN AND CEO, THE ENTERPRISE FOUNDATION

NOVEMBER 29, 2001

Introduction and Overview

Thank you, Chairman Sarbanes, for this opportunity to share with you The Enterprise Foundation's views on the Administration's fiscal year 2003 budget request for the Department of Housing and Urban Development (HUD).

The Enterprise Foundation is a national nonprofit organization founded in 1982 by Jim and Patty Rouse that mobilizes private capital to support community-based organizations and a wide range of their neighborhood revitalization initiatives. We have raised and invested more than $3.5 billion to produce more than 120,000 affordable homes. Our community partners have used these resources to leverage an additional $7.5 billion in investment in their neighborhoods. Enterprise's network of local partners includes 1,900 community and faith-based groups, public housing authorities, and Native American Tribes in more than 700 locations.

Mr. Chairman, we commend you for calling this hearing. It is typical of your longstanding leadership that you would focus the Committee's attention on a vital issue others often overlook: the important role the Federal Government, primarily through HUD, must play in helping meet our Nation's housing needs. We hope today's hearing initiates a bipartisan effort to forge consensus on steps Congress and the Administration can take to assure housing needs do not worsen during this time of great uncertainty in the country and the world.

We also deeply appreciate your and Senator Reed, Senator Kerry, and Senator Leahy's efforts to include housing assistance in the Senate's economic stimulus legislation. Housing help—especially the $3 billion for the HOME program you have proposed—absolutely should be part of any economic stimulus plan. Housing generates jobs and other economic activity and provides assistance to people who need it most during an economic downturn.

Mr. Chairman, this country faces an affordable housing crisis. Even before September 11, housing needs were far outstripping the capacity of States and localities to meet them. The most current data show nearly 14 million families with critical housing needs, another two million who will experience homelessness this year and a loss over the past decade of more than one million apartments affordable to "extremely low-income" renters (those earning 30 percent or less of area median income). These figures reflect conditions before the terrorist attacks, during a time when the economy was growing. Now that those terrible events have pushed the economy into what could be a prolonged recession, housing needs likely will worsen further.

We commend Congress for increasing funding for many HUD programs in the fiscal year 2002 HUD appropriation above the levels the Administration proposed in its budget request. Your colleague from Maryland, Senator Mikulski, along with Senator Bond, was instrumental in that effort. Regrettably, HUD's budget for the current fiscal year still results in slightly less net new housing assistance than in fiscal year 2001. With the economy worsening, States, cities, and communities likely will fall further behind in their efforts to meet their most vulnerable citizens' housing needs.

Congress and the Administration cannot allow this to continue in the fiscal year 2003 appropriations process. We urge HUD to request more adequate funding and Congress to assure that the Federal Government does its part to help meet our Nation's housing needs next year. We would make the following three broad recommendations to the Administration in developing its fiscal year 2003 HUD budget priorities:

- Increase housing production, especially for extremely low-income households;
- Expand the capacity of community-based groups to deliver housing help; and
- Encourage and empower the private sector to do more to help meet housing needs.

Increase Housing Production, Especially for Extremely Low-Income Households

Without a substantial increase in Federal investment in housing production, this Nation will never solve its affordable housing crisis. The Federal Government has largely withdrawn from housing production over the past 20 years. HUD's budget in real terms is less than half of what it was in 1980 and only about one-quarter of the Department's shrunken funding today goes to new production and rehabilitation.

Is it any surprise that the Nation now faces a growing deficit of affordable homes for its poorest citizens? The 1999 American Housing Survey reveals an absolute shortage of 2.8 million rental apartments affordable to extremely low-income people.[1] And the problem is worsening rapidly. The number of apartments affordable to extremely low-income renters dropped by 750,000 nationwide between 1997 and 1999 alone, according to HUD.[2]

A simple and effective way Congress could increase affordable housing production would be to increase the annual HOME appropriation. A decade's worth of evidence certainly argues for it. HOME has financed more than 617,000 affordable homes and currently produces more than 70,000 homes a year. Of HOME-assisted renters, nearly 90 percent are very low-income and 56 percent are extremely low-income. More than half of all HOME-assisted homebuyers earn 60 percent or less of area median income. Every HOME dollar generates an additional $3.93 in public and private investment in housing.[3]

HOME is an especially important tool for community-based groups, which have received almost half of all HOME funds, according to The Urban Institute.[4] HOME dollars often provide critical resources to housing developments financed with the Low-Income Housing Tax Credit (Housing Credit), which is vital to neighborhood organizations, because they typically do the most difficult developments requiring the deepest subsidy to serve the neediest families. HOME also provides crucial technical assistance and operating support to community-based groups to help them become stronger organizations.

HOME works because it is flexible and allows States, cities and communities to solve whatever housing needs they—not the Federal Government—determine are most important: homeownership or rental; new construction, rehabilitation, or preservation; elderly, disabled, homeless, or working family.

HOME received roughly $1.8 billion in formula funding for fiscal year 2002, the same as fiscal year 2001, plus an additional $50 million for a new downpayment assistance program. We encourage HUD to request and Congress to provide $2.9 billion in HOME funding for fiscal year 2003. This amount would roughly equal an inflation adjustment to HOME's initial 1993 authorization level of $2 billion.

In addition to a HOME increase, we, like many affordable housing advocates and growing numbers of Members of Congress, support a new production program targeted to extremely low-income people. A substantial HOME increase would help significantly address affordable housing needs of families with incomes between 30 percent and 80 percent of area median income. It also would partially alleviate, but not solve, the far more severe housing crisis facing those earning less than 30 percent of area median income. To achieve that objective completely, a new program is needed.

Extremely low-income people face by far the most acute affordable housing needs. In 1999, for every 100 extremely low-income renters there were available only 39

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[1] Dolbeare in The 2001 Advocates' Guide to Housing and Community Development Policy, National Low-Income Housing Coalition, 2001, p. 11.

[2] Nelson, "What do we know about shortages of affordable rental housing," Testimony before the House Committee on Financial Services Subcommittee on Housing and Community Opportunity, May 3, 2001, p.2.

[3] "HOME Program Data as of 10/31/01," HUD Web site.

[4] The Urban Institute, Expanding the Nation's Supply of Affordable Housing: An Evaluation of the HOME Investment Partnership Program, U.S. Department of Housing and Urban Development, Washington, DC, 1999, p. 31.

affordable apartments nationwide.[5] And, as noted earlier, that inadequate supply of housing is shrinking fast.

Fortunately, HOME has shown us what a successful program should look like. It should be flexible, allowing for virtually any type of housing development, with an emphasis on rental production, including rehabilitation. It should be administered by States and cities, pursuant to public input. It should leverage additional public and private investment. It should provide a strong role for community-based groups. Beyond those broad, largely noncontroversial principles, we offer the following more detailed suggestions for structuring a new production program.

Any new program should serve low-income people exclusively, with the large majority of resources dedicated to extremely low-income people. We recommend that any new program target 75 percent of its funds to extremely low-income households. Of that amount, 30 percent of funds should be targeted to households earning the equivalent of the minimum wage or less. The remaining 25 percent of funds should be targeted to households earning up to 80 percent of area median income, provided that they live in low-income communities. This targeting would assure that the vast majority of resources benefit those that most need housing help, while allowing (and facilitating) some level of mixed-income development in high-poverty neighborhoods that would benefit from it.

Also, any new program should work in combination with existing, effective resources, especially the Housing Credit. The only way to serve extremely poor people with a capital subsidy is to combine resources from several programs. It is particularly important that any new program work with the Housing Credit, which can cover up to 70 percent of construction costs. The Housing Credit generally penalizes developments that receive Federal grants, with exceptions for HOME and the Community Development Block Grant. One way to assure that a new program would work with Housing Credits could be to allow, but not require, jurisdictions that receive the new resources to run them, or some portion of them, through their HOME program accounts. This could be accomplished without altering either the HOME statute or the deeper targeting and any longer affordability requirement of a new program.[6]

Finally, any new program should set a minimum rent contribution affordable to extremely low-income people to allow developers, lenders, and investors to underwrite developments that serve them. Simply pegging tenant rents to a percentage of their income, which varies by family, prevents sound financial underwriting. We recommend that any new program set a minimum tenant contribution to rent for the extremely low-income apartments of either the greater of 30 percent of the tenant's income or a standard amount affordable to a tenant whose income is 15 percent of the area median income (State median income for apartments in nonmetropolitan areas).

Another important production program for low-income people is the HOPE VI public housing revitalization program. HOPE VI also stands out as one of the most effective Federal initiatives ever to facilitate mixed-income affordable housing and stable neighborhoods. HOPE VI represented a bold admission by Congress that past public housing policy regarding high-rise concentration of the very poor had failed and a radically new approach was needed. The program—and the localities, developers, and residents that have worked together to implement it—have delivered. HOPE VI has helped transform dozens of the most distressed neighborhoods in America by building community services and resident support systems along with new homes. HOPE VI received $574 million for fiscal year 2002, the same amount as fiscal year 2001. We encourage HUD to request and Congress to provide this level of funding in fiscal year 2003.

Authorization for HOPE VI expires next year. The work of public housing revitalization is far from over, however. Many high-rise and mid-rise public housing developments, while not "severely distressed," are physically obsolete or are fast approaching that point. Many are still home to high concentrations of extremely poor people. We look forward to working with the Committee and HUD to create a new, successor program to HOPE VI to address these housing needs and turn more dysfunctional, detrimental environments into healthy communities. The new program should incorporate the core principles that have characterized HOPE VI's success: mixed-income housing; "new urbanist" planning and design elements; provision for infrastructure, community facilities, and supportive services; and financial leveraging.

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[5] Nelson, ibid., p.3.

[6] We understand that many jurisdictions impose much longer affordability requirements on HOME-assisted housing than required by law. We recommend that any new program contain an affordability requirement that lasts for the duration of the property's useful life.

Expand the Capacity of Community-Based Groups to Deliver Housing Help

One of the best ways to assure that Federal housing funds assist the neediest households and most distressed communities is to build the organizational strength of community and faith-based groups dedicated to helping them. Congress can do that through an existing, proven initiative called "Section 4 Capacity Building for Community Development and Affordable Housing."

"Capacity building" is abstract jargon, but it means the very life of an organization. Capacity building funds help community-based groups hire and retain staff, upgrade computer systems, develop business plans, and form new partnerships. There are no ground breakings or ribbon cuttings for capacity building, but without it, neighborhood groups could not achieve the bricks and mortar transformation of their communities. This kind of support is especially vital for smaller organizations with less experience in community development. And it is a wise investment for the Federal Government, because it ensures that organizations that use Federal resources can do so efficiently and effectively.

Congress enacted Section 4 in 1993 to allow HUD to participate in a private sector-led collaborative called the National Community Development Initiative (NCDI). The NCDI had been formed 2 years earlier by a group of national foundations, financial institutions, Enterprise and the Local Initiatives Support Corporation (LISC), another leading national community development organization.[7] The purpose of the NCDI was to strengthen community groups, attract additional resources to expand their work and build continuing local support for community-based revitalization. Under the initiative, the funders channel resources through Enterprise and LISC to community-based groups in 23 cities.[8] (In 1997, Congress began appropriating capacity building funds through HUD to other intermediaries, such as Habitat for Humanity International and YouthBuild, for use outside NCDI cities, including rural and tribal areas.)

The NCDI's overwhelming, documented success shows that capacity building is a high yielding investment in which limited Federal resources leverage substantial private capital for a significant community development impact. According to an independent analysis by The Urban Institute, community group strength, production and local support systems have grown significantly thanks to NCDI investment. As a result of the NCDI, The Urban Institute concluded that community-based groups "in many cities are now the most productive developers of affordable housing, outstripping private developers and public housing agencies."[9]

After a decade, we have learned a few lessons about why Federal support for nonprofit capacity building is so essential and why it represents a wise investment of very limited Federal dollars:

First, Federal participation is limited but indispensable. Overall private funding in the NCDI increased dramatically in subsequent funding rounds after HUD joined in 1993. In addition, most HUD funds committed through the NCDI have been in the form of grants, on which neighborhood groups especially depend to build their organizational strength. (Private NCDI funds more often are deployed as loans.) Furthermore, according to The Urban Institute "The single best predictor of the number of capable [community-based groups] in a city is the amount of Federal funding channeled by that city government to neighborhood revitalization."[10]

Second, Federal participation leverages substantial additional private investment. Recipients of Federal capacity building funds are required to match every dollar they receive with three additional dollars of private or public funds. In practice, they leverage even more than that. Private funds account for 85 percent of the roughly $250 million committed through the NCDI through this year, a leverage ratio of more than 4-to-1. That $250 million has leveraged more than $2 billion in total community revitalization investment from more than 250 State and local partners.

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[7] The participants in the NCDI are The Annie E. Casey Foundation, Bank of America, Deutsche Bank, The Robert Wood Johnson Foundation, W.K. Kellogg Foundation, John S. and James L. Knight Foundation, John D. and Catherine T. MacArthur Foundation, The McKnight Foundation, Metropolitan Life Insurance Company, J.P. Morgan Chase & Co., Pew Charitable Trusts, The Prudential Insurance Company of America, The Rockefeller Foundation and Surdna Foundation.

[8] The cities are Atlanta, Baltimore, Boston, Chicago, Cleveland, Columbus, Dallas, Denver, Detroit, Indianapolis, Kansas City (MO), Los Angeles, Miami, Newark, New York, Philadelphia, Phoenix, Portland (OR), San Antonio, San Francisco Bay Area, Seattle, St. Paul, and Washington (DC).

[9] Walker and Weinheirner, Community Development in the 1990's, The Urban Institute, Washington, DC, 1998, p. 1.

[10] Ibid., p. 9.

Finally, Federal participation does not limit local innovation. Almost as important as the scope of HUD's participation in the NCDI has been the nature of it. As The Urban Institute noted, "EIM's participation in NCDI was a significant move for the Federal Government because HUD pledged to act as an equal to the other funders—not imposing its own criteria for selecting cities or [community groups], but instead tailoring its regulatory requirements where possible."[11]

Congress appropriated $25 million in capacity building funds to Enterprise and LISC to split equally in fiscal year 2002. (Additional capacity building funds were appropriated to Habitat for Humanity International and YouthBuild.) Enterprise and LISC receive far more requests for capacity building assistance than they can meet each year. We urge HUD to request and Congress to provide $30 million in nonprofit capacity building funds to Enterprise and LISC for fiscal year 2003.

Encourage and Empower the Private Sector to Do More to Help Meet Housing Needs

While we believe the Federal Government must do much more to help meet the Nation's housing needs, the private sector has a significant role to play as well. Programs like the Housing Credit have shown that limited, targeted Federal incentives can generate large private investment in affordable housing that contributes substantially to community revitalization. We recommend that the Administration and Congress continue to encourage similar public-private partnerships.

One such example is the Community Development Financial Institutions (CDFI) Fund. While administered by the Treasury Department, the Fund's budget is funded in the VA, HUD, and Independent Agencies appropriation. The Fund stimulates the creation and nurtures the growth of community-based financial institutions working to revitalize distressed and underserved communities. The Fund has made more than $430 million in awards to support a wide range of financial institutions, including community development banks, credit unions, loan funds, venture capital funds, and microenterprise loan funds. The Fund provides direct assistance to such institutions, as well as incentives for larger banks to invest in them.

Recipients of funding must match every dollar of Federal assistance with at least a dollar from other sources. In practice they leverage Federal funding much further. According to a recent Treasury Department survey, 106 recipients of CDFI Core Component funding that received a total of $114 million from 1996–1998 made $3.5 billion in community development loans and equity investments during that period. In other words, these institutions leveraged every dollar of Federal assistance with an additional $31.[12]

While some CDFI's are engaged in nonhousing activities, such as small business and community facilities development, many focus heavily on housing. In 1999, entities that received CDFI Fund Core Component awards financed nearly 25,000 homes and apartments, virtually all of which were affordable to low-income people. Nearly 60 percent of fund-certified CDFI's serve smaller urban areas and 62 percent serve rural communities.[13]

Regrettably, the fiscal year 2002 HUD appropriation cut the CDFI Fund by almost one-third, from $118 million in fiscal year 2001 to $80 million. We deeply appreciate Congress' efforts to increase funding above the Administration's request—which would have cut the fund by more than 40 percent—especially the Senate, which provided $100 million for the fund in its version of the appropriations bill. We cannot understand why the Administration would propose such a sharp cut to a program with a proven track record that leverages an extraordinary amount of additional investment to meet pressing national needs. We urge the Administration to request restored funding for the CDFI Fund to the fiscal year 2001 level of $118 million and for Congress to provide that amount in fiscal year 2003.

Another excellent proposal for increasing private investment in affordable housing is the homeownership tax credit the Administration included in its fiscal year 2002 budget request. While HUD would have no direct role in the credit, the Administration last year included a description of it in its HUD budget request. And while the Banking Committee would not have jurisdiction over the credit, we believe it is important that the Committee, and its many Members dedicated to affordable housing, understands and supports this promising proposal.

Most Federal low-income housing assistance is for rental housing help. Far fewer resources are available to help produce homeownership housing for low-income families. Homeownership rates for minorities, families earning less than their area's median income and central city residents are well below the rate for the Nation as a

[11] Ibid., fn., p. x.
[12] CDFI Fund, CDFI Fund Quarterly, Spring 2001, Volume 4 Number 2.
[13] Ibid.

whole. The main reason for the lack of affordable homeownership development in many distressed neighborhoods is that it costs more to build or substantially rehabilitate homes than homes can sell for in such areas. Thus, a resource is needed to bridge the difference between the construction cost and market value of homes in low-income communities. A homeownership production tax credit would fill a glaring gap in the housing finance system, increase affordable homeownership opportunity for low-income people, encourage mixed-income development and community revitalization and help combat sprawl.

The Administration's proposal wisely incorporates many aspects of the housing credit that have made it such an effective rental housing production program. We support the Administration's core proposal: 50 percent present value tax credit claimed over 5 years; allocated by the States under a competitive process based on annually determined housing needs; in an amount equal to $1.75 per capita, with a small State minimum, both of which would be indexed to inflation; targeted to families earning 80 percent or less of area median income; available in census tracts with median incomes of 80 percent or less of area median income; awarded to developers to fill the gap between construction costs and market value; limited to 50 percent of development costs; buyer subject to recapture of a portion of any resale gain if the home is sold to a nonqualified buyer within 3 years of original purchase.

In addition, we recommend the following modifications to the Administration's proposal: the credit also should be available in rural areas, as defined by Section 520 of the 1949 Housing Act, and on Indian reservations; States should be able to serve buyers earning up to 100 percent of area median income in "Qualified Census Tracts" as defined under the housing credit statute (census tracts where more than half the families have 60 percent or less of area median income or where development costs are disproportionately high); and nonprofit developers should receive a minimum of 10 percent of each State's annual allocation of credits. We urge the Administration to include the proposal in the fiscal year 2003 budget request and for Congress to enact it next year.

Federal Housing Policies and Priorities Beyond Fiscal Year 2003

While our testimony deals with HUD's budget request for fiscal year 2003, we want to conclude with a few words about the future of Federal housing support beyond next year. As a member of the Millennial Housing Commission, I have spent much time recently discussing with leaders from throughout the housing industry numerous ideas for improving the affordable housing finance and delivery system. Three ideas in particular have resonated with me. I hope they are helpful to HUD and the Committee in thinking about the "big picture" aspects of Federal housing policy, which while part of the annual HUD appropriations process, also transcend it.

First, housing programs and policies are too often isolated from broader goals of enhancing economic opportunity for families and strengthening communities. Viewing housing through such a narrow lens has led to myopic policies that disregard the interconnections between housing and other human and community needs. Housing is the foundation of most families' savings and many neighborhoods' stability. In making housing policy, Congress and HUD should consider how housing assistance fits into a larger family and community context.

Second, and very much related to the first point, housing programs must be more flexible. States and localities must be given greater authority to combine housing resources with one another and with other programs that serve the same constituencies and communities, such as welfare, workforce development, child care, and transportation programs. We encourage Congress and HUD to explore ways to enable more efficient combination of Federal resources, especially when and where they target very low-income people and/or extremely distressed neighborhoods as part of comprehensive community revitalization strategies.

Third, we implore Congress and HUD to develop policies and devote resources to preserving the existing affordable housing stock. The Federal Government has made a huge investment in the current inventory. Most of it provides decent, affordable housing for low-income people. But we are losing more and more of this precious resource every year to deterioration and conversion to market rate use. More than 1 million low-cost rental apartments were lost during the 1990's. Up to 4 million more affordable apartments (including 1 million Federally assisted apartments) are at risk over the next decade.[14] Congress and HUD must address preservation before it is too late. We would look forward to working with both in that effort.

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[14] John D. and Catherine T. MacArthur Foundation, Capacity and Capital for Housing Preservation, June 2001, p.3.

Conclusion

Mr. Chairman, now more than ever, our Nation must be strong and united. We believe that sources of that strength and unity include family, faith, community—and a place called home. Now more than ever, home matters. Home is a family's foundation and an anchor in times of turbulence. Home means security and stability. Home helps define and sustain communities, forming the fabric of our neighborhoods and the relationships that bind us.

Now more than ever, a decent, safe, and affordable home is out of reach for too many working Americans. More than 15 million low-income families pay too much in rent, live in rundown housing or are homeless. The supply of affordable apartments is rapidly shrinking nationwide. The slowing economy, along with the recent and substantial loss of jobs in the United States, will put the prospect of an affordable home out of reach for even more low-income Americans. This will strain the fabric of many communities.

The Federal Government, working with States and localities, the private sector and community-based organizations, has a responsibility to help meet the Nation's most dire housing needs. We sincerely hope that the Administration's fiscal year 2003 HUD budget request will provide the tools necessary to meet this responsibility. Thank you for this opportunity to testify.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SARBANES FROM RAYMOND A. SKINNER

Q.1. You point out in your written testimony, the low-income housing tax credit is an extremely popular program that has proven to be highly effective in attracting private investment to the construction of affordable housing. Last year, we increased the amount of tax credits each State could use. However, to be effective, particularly in serving those most in need, the tax credit must be supplemented by other funds. Discuss for the Committee the importance of HOME and CDBG in the context of the tax credit.

A.1. In the past two calendar years, the Maryland Department of Housing and Community Development (DHCD) has funded a total of 74 rental housing projects. Forty-three of these projects received Federal Low-Income Housing Tax Credits, and 23 utilized tax-exempt bond financing. Fully 25 percent of all projects funded by DHCD relied on some HOME funding, either from the State's allocation or from funds provided by local HOME entitlement jurisdictions. The percentage of projects with HOME funding was higher for tax credit projects, with over 45 percent of the tax credit projects receiving HOME funds. Without this important resource, DHCD would have been unable to assist 19 tax credit properties, which would have resulted in the loss of 1,619 affordable rental units.

HOME funds are vitally important for reaching the lowest income families. Maryland's experience shows that housing receiving subsidies only from IRS resources—tax credits and bonds—have difficulty in providing rents affordable to families earning less than 60 percent of median income, much less in making rents affordable to extremely low- and very low-income families. Most recently financed projects depend on soft debt either from HOME or our State-funded programs to achieve rents affordable to households earning 40 to 50 percent of median income.

CDBG funds are far less likely to be tied with tax credit projects. There are a number of reasons for this. First, the CDBG program discourages the use of its funds for most new construction of housing, and rehabilitation loans are primarily focused toward owner-occupied dwellings. Second, unlike HOME, CDBG grants are awarded to units of local government, which are generally not housing developers. Finally, the schedules, activity, and allocation requirements are so different between the CDBG program and the tax credit program that we have found a local government would have to receive funds several years in advance of when the funds would actually be needed by a developer.

Q.2. In addition, what importance does the Community Reinvestment Act (CRA) plan in your efforts to build affordable housing?

A.2. The impact of the CRA on total investment in affordable housing is difficult to track. This is because while private lenders are important partners in the provision of affordable housing, it is impossible to trace that motivation specifically back to the CRA. However, a large number of commercial lenders have participated in the projects we have funded, either as direct lenders or indirectly through syndication of the tax credits.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SARBANES FROM DAVID W. CURTIS

Q.1. What is the impact of the premium increase in FHA multifamily programs and the cost of development and on potential tenants of the affordable housing being constructed under these FHA programs?

A.1. The premium increase will result in higher development costs, because the higher premiums are paid during the construction period as well as over the life of the loan. This means a jump in the up-front development costs, as well as higher debt service. In some cases, builders will not go forward with projects because higher rents cannot be charged in their markets and/or they cannot absorb these costs.

As far as the impact on tenants, industry experts estimate that raising the mortgage insurance premium from 50 basis points to 80 basis points could raise rents by 3 to 4 percent. In an example from the Richmond, Virginia, area provided by a large 221(d)(4) lender, the impact of a 4 percent increase would be as follows:

Unit Size	Current Rent 50 b.p. premium	New Rent 80 b.p. premium	Increase per Month	Increase per Year
Small One Bedroom	$680	$707	$27	$324
One Bedroom	$750	$780	$30	$360
Two Bedrooms	$860	$894	$34	$408
Three Bedrooms	$1,050	$1,092	$42	$504

The impact of a 4 percent increase would be significant, ranging from $326 to over $500 annually. To maintain spending 30 percent of income on rent, incomes for these residents would need to increase by almost $1,100 annually for the smallest one-bedroom unit to nearly $1,700 for the three-bedroom unit.

It should also be noted that currently interest rates are fairly low. Should interest rates fluctuate upward, the impact on affordability would be even more onerous.

Q.2. How important is project-based assistance in developing and financing housing that serves very low-income people?

A.2. Two recent reports, one by the Center for Housing Policy, "Paycheck to Paycheck: Working Families and the Cost of Housing in America," and the Joint Center for Housing Studies of Harvard University's, The State of the Nation's Housing Annual Report 2001 have extensively documented the growing problem of housing affordability for low- and moderate-income households. The Joint Center's report states that, at the end of the last decade, over 14 million owner and renter households spent more than half their incomes on housing.

The Joint Center report also discusses the imbalance between the supply of affordable units and the growing demand for such housing. According to the report, the multifamily sector was hard

hit by losses in both small (under 4 units) and larger (5 or more units) apartments in the 1990's. Overall, new construction in the multifamily sector added over 1.6 million units in the 1990's, but 1.25 million were removed from the market during that time. The report states that ". . . net losses of the smallest multifamily buildings and only minimal additions of larger multifamily buildings are worrisome because of their critical importance in meeting low- and moderate-income housing demand."

The "State of the Nation's Housing" report also points out that the limited production of units affordable to moderate-income households is troubling and likely to cause the critical housing needs problem to spread further to moderate-income families.

It is well documented that many areas of the country have poor tenant-based housing voucher utilization rates, in large part due to the lack of affordable units in the market where vouchers can be used. We believe that project-based rental assistance is of critical importance in increasing the stock of housing affordable to low- and moderate-income households. In addition, project-based assistance is a critical ingredient in the success of efforts to preserve affordable housing through such programs as Mark-to-Market.

Project-based rental assistance aids efforts to expand the stock by making a significant difference when underwriting a new multifamily development or securing funds for a major rehabilitation. The guarantee of Federal funding for a portion of the rental income reduces the risk to the lender providing the loan. Tenant-based vouchers, because they move with the tenant, do not provide this impetus to financing and production.

Also of importance to note is that many affordable housing developments with project-based assistance provide social and community services to residents with special needs, such as senior citizens and people with disabilities. The Federal Government provides funding for many of these services, in partnership with owners and service providers, which are provided on-site because residents may not be able to access them elsewhere. Households in need of such services and who have tenant-based assistance cannot be assured that they will be able to access these important services. Also, even if such services were available in other properties, residents with special needs may not have the mobility to relocate and use a tenant-based voucher.

RESPONSE TO A WRITTEN QUESTION OF SENATOR SARBANES FROM F. BARTON HARVEY

Q.1. Professor Olsen's testimony says that the primary beneficiaries of neighborhood revitalization are owners of surrounding properties and that production programs will simply "shift the location of the worst neighborhoods." As CEO and Chairman of one of the premier organizations working to better communities around the country, do you see evidence to support Mr. Olsen's statement, or does your experience lead you to a different conclusion about the effects of producing new housing in neighborhoods undergoing revitalization?

A.1. Thank you for the opportunity to address this important question. Housing production programs have been proven to contribute

to community revitalization.[1] Even Professor Olsen in his written testimony acknowledges: "It is plausible to believe that a new subsidized project built at low density in a neighborhood with the worst housing and the poorest families would make that neighborhood a more attractive place to live for some years after its construction."

Neighborhoods with the worst housing and the poorest families are where Enterprise and our community-based partners work and where we believe the Federal Government must focus much more resources. Sometimes, housing rehabilitation and new construction in such areas boosts the values of surrounding properties. More often than not, that is a good thing for the entire community and all its residents. Increased property values are a tangible sign that a neighborhood is coming back, which attracts additional residential and new economic development investment in the area.

But let us not be mistaken about who benefits most from affordable housing production in distressed neighborhoods: human beings. Low-income families and individuals who previously were forced to live in run down, unsafe housing, for which they may well have been charged a disproportionate share of their income for rent, often in dysfunctional, dangerous neighborhoods, are the primary beneficiaries of a decent, affordable place to live.

Gentrification is a concern in some communities that otherwise have benefited from revitalization efforts. But there are ways to mitigate its negative effects, all of which are referenced in our written testimony, including: increased investment in affordable production programs, which guarantee long-term affordability to low-income people; initiatives to preserve the existing affordable housing stock; and strong community-based organizations looking out for low-income residents' interests.

[1] See, for example, Hevesi, Dennis, "Programs That Promote Homeownership Help Neighborhoods as Well, a Study Finds," *New York Times*, Monday, July 30, 2001, A17 and Higgins, Lindsey R., "Measuring the Economic Impact of Community-Based Homeownership Programs on Neighborhood Revitalization," The Local Initiatives Support Corporation's Center for Homeownership and George Mason University, April 2001.

STATEMENT SUBMITTED BY
U.S. CONFERENCE OF MAYORS
NATIONAL ASSOCIATION OF COUNTIES
NATIONAL ASSOCIATION FOR COUNTY COMMUNITY ECONOMIC DEVELOPMENT
NATIONAL ASSOCIATION OF LOCAL HOUSING FINANCE AGENCIES
NATIONAL COMMUNITY DEVELOPMENT ASSOCIATION

NOVEMBER 29, 2001

The U.S. Conference of Mayors, National Association of Counties, National Association for County Community Economic Development, National Association of Local Housing Finance Agencies, and National Community Development Association, represent a mixture of elected officials and local government agencies which administer HUD's housing and community development programs, principally the Community Development Block Grant Program and the HOME Investment Partnerships Program. We appreciate the opportunity to provide our written views and recommendations on HUD's housing and community development needs in fiscal year 2003. Our comments will focus primarily on the Community Development Block Grant Program and the HOME Investment Partnerships Program.

HOME Investment Partnerships Program

The HOME Investment Partnerships Program (HOME) has been a catalyst in spurring new affordable housing development since 1992. Since its inception, the program has expanded the supply of decent, safe, affordable housing for low- and moderate-income families, strengthened public-private partnerships in developing affordable housing, and provided funding to communities to assist in meeting their housing challenges. The flexibility of the program allows local participating jurisdictions to use the program funds in combination with other Federal, State, and local funds, and to work with their nonprofit partners, to develop affordable housing, both ownership and rental, based on locally defined needs.

According to cumulative HUD data as of October 31, 2001, since HOME was created in 1990, it has helped to develop or rehabilitate over 617,513 affordable homes for low- and very low-income families. Targeting is very deep in the HOME program. The majority of HOME funds have been committed to housing that will be occupied by very low-income people and a substantial amount will assist families with incomes no greater than 30 percent of median (extremely low-income). As of the end of October 2001, more than 81 percent of home-assisted rental housing was benefitting families at or below 50 percent of area median income, while 41 percent was helping families with incomes at or below 30 percent of area median income. In addition, approximately 29 percent of the home buyer units assisted with HOME was targeted to families at or below 50 percent of area median income.

HOME funds help low- and very low-income families realize the dream of homeownership by providing for construction and rehabilitation of housing as well as providing the down payment and/or closing cost assistance. Since 1992, HOME funds have been committed to 352,200 homeowner units (this includes assistance to 229,612 first time home buyer units and rehabilitation assistance to 122,578 occupied homeowner units).

HOME is cost effective and provides the gap financing necessary to attract private loans and investments to projects. For each HOME dollar, $3.93 of private and other funds is currently being leveraged. This clearly illustrates the judicious use of HOME funds by local governments.

HOME is a sound program, with an excellent track record in developing affordable housing for households at various income levels. However, HOME is limited by the amount of funding that is appropriated each year. Funding for the program has increased very little since it first began in 1992. The amount allocated under the program in 1992 was $1.460 billion. The amount appropriated for 2002 was $1.85 billion. Of this amount, $87 million was provided to set-asides within the program. In addition, the increasing number of new participating jurisdictions and consortia will decrease the formula allocation further. Moreover, the formula allocation for the program was not increased from fiscal year 2001 to fiscal year 2002. This concerns us greatly. In order to expand efforts to meet the enormous need for affordable housing in this country, adequate resources must be appropriated for programs such as HOME. We propose a funding level of $2.25 billion for the basic HOME program in fiscal year 2003, along with an additional appropriation of $2 billion for a rental production program within HOME, which is further described below. We also propose that the set-asides within the program be scaled back, or eliminated altogether.

We were pleased to see that the initial $200 million set-aside requested by the President within HOME for a down payment assistance program was reduced to $50 million. We are opposed to this set-aside and ask that it be eliminated altogether in fiscal year 2003. HOME funds may already be used for down payment and/or closing cost assistance. In fact, since 1992, $1.06 billion of HOME funds have been used to help families buy their first home. There is no need to create a separate program for this purpose for it would result in a proliferation of set-asides that further dilute the program.

Besides an increase in the formula allocation of the program, we also strongly recommend that technical assistance funding under HOME be continued, and increased. We are pleased that HUD continues to receive technical assistance funding annually; however, the funding amount is diminishing. We have heard from sources at HUD that the amount available for HOME technical assistance funding at the national level will be severely cut this year, or possibly eliminated altogether. Our associations have applied for this funding through HUD's SuperNOFA process in past years to directly provide technical assistance to our members. We use this funding to provide training workshops, develop publications, and provide on-site technical assistance, all targeted to helping grantees better administer their HOME funds. We ask that you continue to make HOME technical assistance funds available at the national level for our associations and others to help their grantees better implement the HOME program.

Housing Production

According to HUD's most recent edition of its Report on Worst Case Housing Needs, over five million renter households have severe housing needs. These households contain renters with incomes below 50 percent of area median income who pay more than half their income for rent or live in severely substandard housing. Progress in assisting these households is diminished by the substantial shortages of affordable housing. Between 1997 and 1999, the number of units with rents affordable to households with incomes below 50 percent of area median income dropped by 1.1 million, a loss of 7 percent. The report's findings on the accelerated reduction in the number of affordable rental units show that the private market is not producing enough affordable rental housing to meet existing demand. One answer to this crisis is to produce more affordable housing using effective Federal housing programs such as HOME.

In the past couple of years, there have been a number of bills introduced in Congress to increase housing production, primarily targeted to households at or below 30 percent of area median income. These proposals have mainly focused on creating a National Housing Trust Fund, a new and separate program from existing HUD programs. In an effort to avoid a situation where such a program would compete with HOME, our associations propose that a housing production element be incorporated within HOME. The infrastructure is already in place within HOME to implement such a program.

Our proposal would provide grants for new construction, substantial rehabilitation, and preservation of multifamily housing. Mixed-income projects would be encouraged. All of the resources made available under our proposal must benefit households at or below 80 percent of median income, with at least 50 percent befitting those at or below 30 percent of median income. Funds would be apportioned 60 percent to local participating jurisdictions and 40 percent to States using a formula that measures inadequate housing supply. We would be pleased to work further with the Committee in crafting a production program.

In addition to this proposal, there are several other modifications/refinements to the HOME program that we offer for the Committee's consideration:

- We recommend that a loan guarantee program be added to HOME, modeled after the very successful Section 108 program under CDBG. Such a program would enable participating jurisdictions to "borrow" against future entitlement grants in order to undertake large-scale projects. The House passed this proposal in 1994, but the Senate never acted;
- We recommend that the statute be changed to allow participating jurisdictions to provide matching funds on a program year, rather than the current Federal fiscal year basis, to simplify program administration;
- We recommend permitting the substitution of a substantially equivalent State or local environmental review requirement for the environmental review requirements under NEPA;
- We recommend providing an exemption from the environmental review requirements for rehabilitation of one to four units and all owner-occupied rental and homeownership projects;

- We recommend deleting the current law requirement that the Secretary establish per-unit subsidy limits. The statute already requires participating jurisdictions to certify that they have not provided more funds than are necessary to assure a project's financial feasibility.

Community Development Block Grant Program

Now in its 27th year, the Community Development Block Grant program is the Federal Government's most successful domestic program. CDBG helps communities tackle some of their most serious community development challenges. The CDBG program's success stems from its utility, that is, providing cities and counties with an annual, predictable level of funding, which can be used with maximum flexibility to address unique neighborhood revitalization needs.

Based on the fiscal year 2001 CDBG data reported by grantees, CDBG provided funding to 172,445 housing units. Of this number, CDBG provided funding for the new construction of 3,878 units, assisted 11,812 first time homebuyers, and rehabilitated 156,755 housing units. In addition to providing funding to housing units, the program created or retained 116,777 jobs. This is just in fiscal year 2001 alone. In fiscal year 2001, entitlement communities spent their CDBG funds in the following manner: housing (30.98 percent), public works and infrastructure (25.56 percent), planning, monitoring and program administration (15.48 percent), public services (13.25 percent), economic development (8.32 percent), and preventing or eliminating slums and blight (6.21 percent).

Even though the program has performed well, the annual appropriations for CDBG have remained static over the last decade, increasing only slightly in some years. Most recently, the program received a cut in fiscal year 2002, reducing its annual appropriation from $5.057 billion in fiscal year 2001 to $5.0 billion in fiscal year 2002. We were very surprised and disheartened to see a cut to the program, particularly a program that has such a stellar track record in benefitting our communities across the country, and particularly given the fact that very few other HUD programs received a cut. More importantly, the formula allocation to grantees has begun to erode because of the increased set-asides allotted by Congress under the program. In fiscal year 2002, the formula allocation was cut by approximately $59 million because of decreased appropriations and continued funding of a large number of set-asides under the program. If the set-asides continue to flourish, the formula allocation to grantees will continue to diminish over time, providing fewer and fewer funds to grantees for their community development needs, which are also increasing. In addition, the number of new entitlement communities has increased which has further decreased the formula allocation to existing communities. We implore Congress to increase funding for CDBG in fiscal year 2003, especially given the set back in funding to the program this year. Given the fact that the program has increased very little in its 27 years, we are seeking at least $5.0 billion in formula funding in fiscal year 2003. This would represent a $659 million increase in formula funding from fiscal year 2002. In addition to the increase in the program's formula allocation, we are also seeking funding for technical assistance under the program. For reasons unknown to us, Congress discontinued funding for CDBG technical assistance a few years ago. Since that time there has been no funding for technical assistance for the program. Like in the HOME program, technical assistance is crucial to ensuring better implementation of the program.

In addition to increased funding for the program, there are several refinements to the CDBG program that we offer for the Committee's consideration:

- We recommend that the threshold for application of the Davis-Bacon requirements for CDBG conform to that of the HOME program, that is 12 units or more;
- We recommend making CDBG expenditures for fair housing a directly eligible activity, rather than its being subject to the 20 percent administrative cap. This will take some of the pressure off the administrative cap;
- We further recommend eliminating the current law requirement that housing service activities under CDBG be subject to the 20 percent administrative cap. This is a technical correction. The law prior to the 1992 amendments did not place these activities under the cap;
- We recommend permitting the substitution of substantially equivalent State or local environment review requirement for the environmental review requirements under NEPA.

IDIS

Both HOME and CDBG grantees utilize HUD's Integrated Disbursement Information System (IDIS) to report their accomplishments as well as drawn down funds. Our associations, as well as grantees, continue to work with HUD to iron out the last remaining "kinks" in the system. Overall, the system provides valuable infor-

mation to grantees, HUD, and Congress on how HOME and CDBG funds are being used nationwide. It is imperative that Congress appropriate sufficient funding to ensure that IDIS continues in operation until HUD has finalized its Departmental Grants Management System (DGMS). No direct funding was appropriated for IDIS in fiscal year 2002. The program will now have to try to seek funding through HUD's working capital fund, with no assurances that funding will be provided. We ask that Congress provide adequate funding for the system in fiscal year 2003 and direct HUD to provide adequate funding for the system this year from its resources. HUD is currently working on developing its DGMS system, which is years away from becoming operational. Until that system is fully operational to the satisfaction of our grantees, Congress must continue to fund IDIS to ensure that grantees can properly administer their CDBG and HOME projects.

Other Important Programs

There are two other programs that play a key role in expanding the supply of affordable housing Low-Income Housing Tax Credits and tax-exempt Private Activity Bonds. Tax credits provide equity investments for affordable rental housing, while tax-exempt bonds provide debt financing for affordable rental housing and first mortgage assistance for income-qualified, first-time homebuyers (Mortgage Revenue Bonds). We worked very hard over the past 4 years to convince Congress of the need to increase the Statewide volume caps that apply to these two programs. We were very pleased that Congress increased both volume caps in a two-step process as part of the fiscal year 2001 omnibus appropriations bill. Under the legislation, the tax credit cap increased on January 1, 2001 from the previous $1.25 per capita, per State to $1.50 per capita, per State. On January 1, 2002 it will increase to $1.75 per capita, per State. Similarly, the volume cap for Private Activity Bonds increased on January 1, 2001 from the previous greater of $50 per capita or $150 million per State to the greater of $62.50 per capita or $187.50 per State. On January 1, 2002 it will increase to the greater of $75 per capita or $225 million per State. Both caps are indexed for inflation going forward. In most States housing gets the lion's share of the bond volume cap.

However, the bond cap increase will be undermined by an obscure provision added to the tax code in 1988 applicable to Mortgage Revenue Bonds. It requires that mortgage prepayments made 10 years after the date that the bonds were issued be used to redeem the bonds, rather than recycling them into new mortgages. Recycling is permitted within the first 10 years. We believe it should be permitted after the first 10 years, and therefore support H.R. 951. This legislation, introduced by Reps. Houghton and Neal, would repeal the 10 year rule. H.R. 951 also provides an optional method for calculating the maximum allowable purchase price of a home that a first-time homebuyer can purchase with Mortgage Revenue Bond assistance.

The final issue upon which we wish to comment is the need to renew expiring rent subsidy contracts under the McKinney Act's homeless housing programs. In order to assure continuity of services and rental assistance in these projects we recommend that the Supportive Housing Program renewals and Shelter Plus Care renewals be transferred to the regular Section 8 rental program. This would allow more funding to be available under HUD's homeless assistance programs for the development of new projects to assist the homeless.

We would also like for the Committee to give serious consideration to combining HUD's homeless assistance programs into a single, flexible formula-allocated block grant program. While we recognize that there is continued resistance from other groups on this idea, we also recognize that the current system is not perfect. Grantees have to spend months planning and applying for the funds, and then waiting for many more months to hear as to whether or not they were awarded funding through HUD's SuperNOFA competition. We do recognize the importance of the partnerships that have been formed and supported through the current system and agree that the planning process should continue within our block grant proposal. We also recognize that a lot more funding is needed to assist communities in meeting the needs of the homeless. To that end, we request that Congress increase the appropriations level of HUD's homeless assistance programs, including funding the Supportive Housing Program and Shelter Plus Care renewals.

We again thank you for the opportunity to provide written comments on the need for funding for these very important programs. We look forward in working with you and your staff in the year ahead.

National Association of Housing and Redevelopment Officials
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December 10, 2001

The Honorable Paul Sarbanes
Chairman
Senate Committee on Banking, Housing and Urban Affairs
SD-534 Dirksen Senate Office Building
Washington, D.C. 20510-6075

Dear Senator Sarbanes:

Re: Submission of Additional Testimony for the Record
11/29/01 Committee Hearing on Housing and Community Development Needs:
The FY 2003 HUD Budget

Thank you for the opportunity to testify before the Senate Committee on Banking, Housing and Urban Affairs about the need for more funding for housing and community development programs. As an additional submission for the record, we are sending the attached information about deregulation of the HOME, the misconceptions about unspent Capital Fund monies, the need for predictable Section 8 reserves, Section 8 project-based assistance and the effect of losing Public Housing Drug Elimination Program (PHDEP).

We look forward to working with the Committee to help ensure a FY03 HUD budget that will substantially address our country's need for affordable housing and community development. If you wish to discuss these submissions or other matters relating to HUD programs, please feel free to contact Julio Barreto, Director of Legislation and Program Development, at 202-289-3500, ext. 231.

Sincerely,

Kurt Creager
President

Attachments (4)

Cc: The Honorable Patty Murray

Kurt Creager, President; **James M. Inglis**, Senior Vice President; **Larry Cobb**, Vice President-International; **Larry A. Loyd**, Vice President-Housing; **Terrence James Madigan**, Vice President-Professional Development; **Marilyn Phillips**, SPHM, Vice President-Member Services; **Bill Pluta**, Vice President-Community Revitalization and Development; **Elizabeth B. Wilson**, Vice President-Commissioners; **Saul N. Ramirez, Jr.**, Executive Director

e-mail: nahro@nahro.org Web Site: www.nahro.org

Attachment 1

HOME Program

The following is a list of statutory and regulatory changes that NAHRO would like to see made to the HOME program. These changes will help make it easier to develop affordable housing with HOME funds, as well as facilitate using HOME funds with other affordable housing programs. Currently, NAHRO is a member of a working group of national HOME stakeholder organizations that is drafting additional recommendations on the HOME program, which we expect to send to your Committee shortly.

Statutory Changes

The following are NAHRO's positions regarding statutory changes to HOME. (Statutory citations refer to Title II of the National Affordable Housing Act of 1990.)

Monitoring Fees

Congress should provide funding to pay for monitoring fees or permit Participating Jurisdictions (PJs) to charge monitoring fees to HOME property owners. These monitoring fees would pay for the cost of compliance monitoring throughout the affordability period. (Section 212).

Compliance monitoring is becoming more difficult each year because PJs' portfolios are constantly expanding, yet, due to the cap on administrative fees in the program, PJs have limited resources to pay for both the administrative costs of current projects and the monitoring costs of completed ones. One solution to this problem is for Congress to provide additional funding, either as an increase to the administrative fee allowed in HOME or as a separate appropriation just for compliance monitoring. Another way to address this problem would be to allow PJs to charge compliance monitoring fees as part of the project's finances, much like states do for Housing Credit properties. The fee structure could mirror that of the Housing Credit or could be capped at the actual cost level.

Create a HOME Loan Guarantee and Securitization Program

NAHRO recommends that Congress create a loan guarantee program and securitization program within the HOME program that will allow PJs to borrow against future

allocations and repay these loans either directly from future allocations or from revenue generated by the projects. This program would be similar to the Section 108 program.

A loan program such as this would help PJs fund large-scale projects that they are unable to do with a single year's allocation. The CDBG and public housing programs have similar program features that are being successfully utilized by local agencies.

Mixed-Finance Simplification

The concept of proportionality is missing from mixed-finance projects. The largest public funding source in a project should control all requirements related to development and operations of the project. All requirements from other public programs should be waived in favor of one controlling set of requirements governed by the largest contributor to the project.

Many local agencies find that it is extremely cumbersome and more costly to mix resources from different HUD programs and/or to mix HUD funds with state and local funding sources. This recommendation is aimed at reducing the complexity of developing mixed-finance projects. Also, the amount of fees paid to lawyers, bond counsels, and developers is increased by the intensive amount of labor involved in meeting several different requirements from several different programs.

Examples of Simplification of HOME with Other Programs

While the following items are not yet specific NAHRO positions, we consider them examples that support our position to make programs consistent with each other and to simplify mixed-finance development. We recommend that the Committee consider these items as a way to simplify and facilitate the use of HOME funds with other funding sources.

Simplify the HOME rent rules (Section 215).

1. The High HOME rent should equal 30 percent of either 60 percent the area median income (AMI) or 60 percent of the state median income. Presently, High HOME rents are the lesser of the fair market rent (FMR) or the adjusted income of a family whose annual income equals 65 percent AMI. HOME rents should not rely on the Section 8 FMR. The low HOME rent should equal 30 percent of either 50 percent AMI or 50 percent of the state median income. In certain counties, the FMR (a component of the High HOME rent) is lower than even the low HOME rent. In these cases, inability to service debt, due to low rents, can threaten a project's financial viability.

   Other housing programs use rents that equal 30 percent of the income of a family at 60 percent AMI, while the HOME program uses 65 percent. Using a 60 percent AMI figure would iron out inconsistencies between the programs.

2. If HOME is combined with the Housing Credit, properties should rent at Housing Credit levels. Subsidy layering in HOME-Housing Credit projects could be simplified if HOME rents conformed to the Credit rents.

3. If HOME is combined with project-based assistance, the maximum rent for all HOME units in a project, not just low HOME rent units, should be the rent allowable under the project-based rental subsidy program. This would again improve the consistency between differing rent levels within and between the HOME program and other programs.

Alter Over Income Occupancy Requirements.

Alter the HOME program's rules concerning tenants who become "over income" during occupancy, so that these rules correspond with "over income" tenant requirements in the Housing Credit program. (Section 215)

Under the HOME program, over-income tenants must pay either 30 percent of their adjusted income for rent, or the market rate of comparable unassisted units in the neighborhood. Determination of comparability can be a difficult and cumbersome task for owners. Under the Housing Credit, if a tenant's income rises above 140 percent of the median income limit (in the case of deeply skewed projects, the income limit is 170 percent), the next available unit of equal or smaller size that becomes vacant must be rented to a low-income tenant.

Modify the Eviction Procedures of Dangerous Tenants.

In cases where there is a health or safety concern, a 48- or 72-hour notice to vacate regulation should be substituted for the mandatory 30-day notice to terminate a lease. (Section 225)

Other programs, such as the public housing and Section 8 programs, have special provisions for the eviction of tenants who threaten the health and safety of other tenants or property staff. The statutory 30-day notice to terminate a lease presents problems for owners facing tenants who are a threat to the health or safety of other tenants, such as drug users in a transitional living program for recovering substance abusers. In many places, landlord-tenant law allows 48- or 72-hour notice to vacate. This change would make it easier to manage HOME properties safely.

Allow PJs to Decide on CHDO Funding.

Allow PJs to decide how much HOME funding they should award to nonprofits for operating expenses, and allow funding to be tied to performance. (Section 221)

PJs have experienced difficulty in identifying viable non-profits that meet the requirements of the HOME program, yet the statute requires that 15 percent of all HOME funds be spent through non-profits known as Community Housing Development Organizations (CHDOs). These CHDOs must be able to build, sponsor, or develop

affordable housing. To do so, they must have sufficient capacity and operating budgets, but oftentimes non-profit organizations do not have sufficient funding to pay for their operating costs. PJs should have the discretion to provide more than 5 percent (the current limit) of HOME funds for nonprofit operating assistance, if they feel this is the best use of the funds.

In addition, PJs should have the authority to tie increased performance to increased funding for CHDO operating expenses, depending upon the performance record of the CHDO and the types of projects undertaken.

Regulatory Changes

The following is a list of regulatory changes that could be made to the HOME program to make it more flexible and easier to use. These are not specific NAHRO positions, rather, these are items that should be considered when deregulating the HOME program.

Allow the use of HOME funds for all types of refinancing (24 CFR 92.214).

The regulation should allow PJs to use HOME funds for refinancing of projects regardless of whether or not refinancing is done in conjunction with rehabilitation. Right now, HOME cannot be used for refinancing unless rehabilitation is part of the project. Certain Housing Credit, USDA 515, and other subsidized rental properties that are in jeopardy could be preserved if HOME could be used for refinancing. This would increase program flexibility. The affordability requirements of the HOME program would still be in place so that the refinancing of the project would produce a benefit to the community – preserving or creating more affordable housing.

Allow long-term reserves as an eligible project cost (24 CFR 92.214).

The HOME regulations prohibit the use of HOME dollars to fund project reserve accounts. Currently, this cost is the only cost for which a developer must secure private debt, adding complexity to the deal, since the private lender will seek to be in the first lien position on the loan. By allowing the funding of long-term reserves, all of the financing required for the project may come from the HOME program. This would help simplify the steps required to finance the affordable units, and, in some cases, reduce the per unit cost of developing the unit, thus enabling more units to be produced.

Modify the Site and Neighborhood standards for new construction (24 CFR 92.202).

Rather than prohibit new construction in areas of minority concentration, require PJs to consider the racial makeup of the area.

Full compliance with these standards for new construction can be an obstacle to making projects happen. During the 10 year period between the Census, an accurate analysis of the racial composition of every area a PJ considers for new construction is costly and difficult to accomplish. While accomplishing racial diversity should remain a goal of this

program, there must be more flexibility in this regulation so that PJs can realistically meet these requirements while at the same time provide affordable housing to those in need. Many areas which appear to have high or low concentrations of racial groups may have an overriding need for affordable housing that will never be met by HOME or other programs unless these standards are modified to be more flexible. Issues of affordable housing preservation, health and safety, and neighborhood revitalization must be considered. Allowing PJs, in concert with the Department, to waive these regulations when there is an overriding need to do so would help the PJs to be more responsive to their local communities.

Allow Income Certifications from Other Sources (24 CFR Section 92.203).

The HOME program should allow PJs to accept the income certifications used by other governmental entities/programs during a household's first year of residence in a HOME project, and modify the definition of income in the HOME program to include income definitions used by other government entities/programs.

According to the HOME regulations, PJs must initially determine annual income of tenants in HOME-assisted housing. In subsequent years, a written statement from the administrator of another income-based government program will suffice as income recertification. However, if a household has a Section 8 voucher, the Medicaid Choice waiver, or similar income-based benefits at the time that they take residence in a HOME-assisted unit, the family has already undergone an income eligibility determination by another government entity, so why not use these existing certifications?

Right now, determination of household income in the HOME program is limited to one of three specific definitions of annual income. If the definitions regarding income from other government programs do not match those in HOME, PJs must then document each family's income eligibility according to the HOME definitions of annual income. It would simplify the process if HOME were not bound by these stringent definitions, allowing PJs to use income certifications from other government entities/programs. It is redundant to document income eligibility of a family for the HOME program if another program has already done so, even if the documentation standards differ slightly.

Allow PJs to substitute alternate environmental reviews that are substantially equivalent to HOME requirements (24 CFR 92.352).

In addition to HUD environmental review requirements, many PJs must also comply with their state or local environmental review processes. HUD should consider accepting state or local environmental review submissions from PJs that are substantively the same as those required by the HOME program. PJs point to the environmental review process as one the most time consuming processes in the HOME program, one that can be fraught with delays beyond the PJ's control. Time is money in the development process. Therefore, whenever possible, HUD should accept environmental reviews that meet the standards in the HOME regulations rather than requiring duplicative federal and local or

state processes. Perhaps the PJ could certify to HUD that the local or state processes are equivalent and submit those local standards for review by HUD on a periodic basis.

Exempt rehabilitation of one to four units for owner-occupied and rental projects from Environmental Review Requirements.

Environmental reviews are triggered if more than four units are assisted by HOME within 2000 feet of each other. Most PJs have rehabilitation programs that allow application on an ongoing basis throughout the year. It is not possible to identify the location of each unit at the beginning of the program year and do an environmental review of all units at the same time. If four houses receive HOME assistance, and then a fifth house in the same the 2000-foot area later applies, the PJ must perform an environmental assessment, which stops all work for at least 90 days. We need to find a way to prevent unnecessary delays like this. Unless there is a compelling environmental reason to do so, exempting smaller projects from environmental review may help cut down on program delays.

Attachment 2

Public Housing Capital Fund Under-utilization

During hearings before the Senate Subcommittee on Housing and Transportation of the Banking Committee, the House Subcommittee on VA, HUD, and Independent Agencies, and the House Subcommittee on Housing and Community Opportunity of the Financial Services Committee this fall, Secretary Martinez stated:

> "HUD commissioned a study with Abt Associates[1] at some expense, which indicates that LHAs could not utilize more than $2.3 billion for capital projects this year."

NAHRO has read the report carefully and we were unable to find support in the document for the Secretary's remark. The report does state a figure for annual accrual, which is $2.03 billion. On page 3 of the executive summary, the Formula Capital Study explains that, assuming existing modernization needs were met, each year about $2 billion would be required to address accruing (new annual) needs. This statement about annual costs incurred is in contrast to Secretary Martinez's interpretation that only $2 billion can be absorbed. Reducing the Capital Fund to only $2 billion per year would grossly defeat the purpose of the program, which is to provide decent, safe housing. It would cause an increase in the backlog of capital need as funds would be stretched too thin to address both accruing needs and a minimal level of backlog need.

The Capital Fund program is successful in reducing the backlog of unfunded capital needs and providing for annually accruing needs. Between 1990 and 1998, total national backlogged capital needs declined 35 percent, from $33.26 billion to $21.6 billion (in 1998 dollars). Backlog need per unit dropped from $25,330 in 1990 to $17,910 in 1998. The number of public housing units declined 8.1 percent in that time period, yet there was a 29 percent decrease in existing need per unit. The drop in need is partly attributable to the HOPE VI program and the mandatory conversion provision, which together removed, or earmarked for removal, 106,000 distressed units from inventory. But the housing agencies that administer these funds are primarily responsible for reducing backlog, attending to new needs, and providing better housing for low-income families and seniors. NAHRO advocates for steady funding at $3.5 billion per year to eventually eliminate backlog.

In considering how much housing agencies could absorb, NAHRO believes their capacity is directly proportional to the amount of funds provided. Consider three factors in this equation. First, HUD's ability to provide the funds in a timely manner; second, agencies' ability to manage the increased workload and issue contracts for the work; and third, a local economy's ability to

[1] Capital Needs of the Public Housing Stock in 1998, Formula Capital Study. Abt Associates for U.S. Department of Housing and Urban Development. March 2000.

absorb the funds. We believe that a close regulatory review of the program is needed to speed up delivery of the funds to agencies, and the contracting process. HUD is taking a positive step in this direction, through its plan to release half of all FY 2002 capital funds to non-troubled agencies in January 2002. The balance of the funds will be provided when an agency's annual plan is approved. With regard to local economies, NAHRO strongly supports housing construction and related activities as a central part of any economic stimulus effort.

The obligation and expenditure summary for FY1987-FY2000 is illustrated in the following table, based on data NAHRO obtained in March 2001. A factor that is not illustrated in this table, but which has great bearing on the timeliness of expenditure, is the date by which HUD distributes the funds to the housing agencies. The later in the fiscal year this occurs, the more funds will show up on HUD's year-end statements. Furthermore, since the implementation of the Agency Plan, housing agencies can receive funds only when their annual plan is approved, which happens on a fiscal year basis. Therefore, the entire schedule for obligation and expenditure must be adjusted to compensate for funding distributed by quarter instead of a certain single date. We know that HUD is struggling with these issues now, especially with regard to the early release of capital funds.

Fiscal Year	Authorized Amount	Obligation Deadline	Percent Unobligated	Unobligated	Expenditure Deadline	Percent Expended	Unexpended Amount
1987-1997	$25.000		100%	$0		100%	**$0**
1998	$2.442	2000	96%	$0.105	2002	71%	**$0.700**
1999	$2.845	2001	69%	$0.943	2003	38%	**$1.774**
2000	$2.723	2002	18%	$2.200	2004	5%	$2.579
Totals	$32.000			$3.248			$5.053

Notes: There was an unexpended amount of $134 million in FY1996.
Amounts are in billions.

The General Accounting Office (GAO) provided its congressional requesters with data sheets documenting their review of HUD's FY2002 budget request for several programs, including the Capital Fund. Their review of FY2000 year-end Capital Fund balances shows an obligated but unexpended balance of $11.837 billion as of FY2000, plus $1.536 billion unobligated from FY2000, for a total of $13.373 billion. Of that amount, $6.722 billion is obligated for debt service, leaving an unexpended balance of $6.650 billion, compared to $5.053 in the table above. The data NAHRO obtained was produced in March 2001 from the Line of Credit Control System (LOCCS), which is the financial record keeping system used by HUD. The GAO paper was written in October 2001. Given the time difference in the two data sources and rounding, the GAO obligated but unexpended $6.650 billion and that shown in the table above are roughly equivalent.

However, NAHRO believes that the current total of unobligated, unexpended funds is about $2.5 billion, from FY1998 and FY1999 ($700 million and $1.77 billion). HUD disbursed FY2000 funds in July 2000, and the quarterly disbursement of funds means that at least half of the FY1999 funds and all of FY2000 and FY2001 have not reached the obligation or expenditure time limits. NAHRO argues that FY2000 and FY2001 funds should not be included in the calculations of overdue funds. Since 1987, $32 billion has been allocated to the capital fund program. Only 13 percent of this amount is unobligated beyond the statutory time limit of two years.

NAHRO believes this problem can be resolved through several means. For example, there needs to be better information flow between HUD's processing centers, Field Offices, and within HUD's headquarters (including the Capital Fund program office and the Grants Management Center). Problems could be identified and corrected in a thorough business process review. NAHRO has documented one case where it took 16months for a housing authority to receive its funds. There are over 15 major steps, and numerous secondary steps, which must be taken by HUD to release funds to agencies. HUD and its partners need to agree on a specific set of dates from which to count the expenditure and obligation time limits, then manage the program through an automated tracking system.

While it is expedient to refer to a number in a report, or look at a chart of figures, NAHRO urges the Committee to consider what is driving those numbers. The Capital Fund program is, on average, doing okay. A better tracking system and tightened business processes will help HUD and housing agencies use the funds within established timelines. There is good evidence that the program does work, especially as the anchor program in an array of public and private financing tools, to eliminate poor quality housing in our nation's public housing inventory.

Attachment 3

Section 8 Reserves

HUD should honor congressional intent and provide LHAs immediate access to 30 days of reserves and the ability to requisition up to an additional 30 days of reserves to serve their adjusted baseline of units - as long as HUD does not exceed the aggregate reserve of $640 million appropriated by Congress.

FY 2002 HUD Appropriations

The law provides for an aggregate reduction in HUD reserves from $1.2 billion to $640 million, but the bill's report language directs HUD to ensure that LHAs have the funds to administer all Section 8 contracts in a normal manner, including vouchers that turn over during the year. The report language indicates that HUD should maintain the policy of allowing LHAs access to at least 60 days of reserve funds if needed to serve their authorized adjusted number of baseline households. With the $640 million provided in Section 8 reserves, we believe HUD should be able to implement an administrative system to accomplish the goal of providing funding for those LHAs who need more than one month to serve their adjusted baseline families.

HUD's Financial Management Center's Recent Actions Contravenes The Will of Congress

Local housing agencies (LHAs) have received messages from HUD's Financial Management Center (FMC) and Field Offices that contradict the conference report language and congressional intent. Recent correspondence to LHAs from HUD's FMC stated that "although assistance will continue to be provided to anyone currently under the program, your HA is instructed to stop reissuing turnover rental certificates until the number of units under the lease has declined to the number of units which can be assisted with the Annual Budget Authority available for your HA's current budget year and subsequent years." Copies of FMC's correspondence were provided to the Senate Committee on Banking, Housing and Urban Affairs on December 4, 2001. These instructions mean that LHAs may not issue "turnover vouchers", contradicting the report language in the FY02 HUD appropriations bill. As a result, LHAs are uncertain about both their ability to access reserves and what portion of their Annual Budget Authority they will be able to request for reserves.

HUD is in the process of drafting a new notice on Section 8 reserves. We expect to meet with PIH Assistant Secretary Michael Liu before the notice is finalized in order to discuss the HUD FY 2002 appropriations statute and report language in conjunction with HUD's existing Section 8 reserve practices.

Attachment 4

Public Housing Drug Elimination Program

Strained City and State Budgets Due to Homeland Security Needs

The decision to eliminate the Public Housing Drug Elimination Program (PHDEP) is very disconcerting at a time when security concerns have increased dramatically as a result of the September 11 terrorist attacks. As NAHRO mentioned during our Senate testimony, safety and security budgets ($1 billion nationally) for cities and states are strained. One month ago, the U.S. Conference of Mayors asked for additional federal funding to help offset the stretched budgets for safety and security in cities. The National Governors Association also recently called upon Congress to appropriate $3 billion to assist States for the same reason.

According to the U.S. Conference of Mayors, only 4.9 percent of approximately $10 billion identified by the Office of Management and Budget for federal anti-terrorism activities is allocated to state and local first response activities. And of this limited amount, most is provided to the states, bypassing America's cities and major population centers. Conversely, PHDEP funds go directly to neighborhoods where the incidence of drug related crime is high.

Accountability

During the hearings on the FY 2002 budget, Secretary Mel Martinez said it was virtually impossible to measure PHDEP's program successes. However, HUD requires agencies to submit PHDEP program data explaining their accomplishments, and has published studies, guidebooks and Geographic Information Software (GIS) mapping software to measure the success of the program.

There has been only one report critical of the Drug Elimination Grant, which focused on the program's administration. On January 8, 1999, HUD's Office of the Inspector General published the result of an audit of a sample of 21 PHDEP grantees' programs operated between fiscal years 1994-1997. The report included only two findings — grantees needed to ensure better administration and accountability of the funds, and HUD needed to develop an effective reporting and evaluation system for the grant program.

Both of these findings have been addressed successfully. HUD has developed a semi-annual reporting system and requires grantees to submit annual strategic plans and updates for the use of PHDEP funds. These plans must include measurable

performance goals, such as lowering crime by a certain percentage, or assisting a certain number of youth in an education program.

Performance and achievements are tracked by the agencies and HUD. Grantees, twice yearly, use the HUD Web site to access the secure reporting system. Grantees with multiple years' funding must submit separate reports for each year (each grant). Grantees must also abide by program rules that describe eligible and non-eligible activities.

There has been concern that PHDEP funds may be duplicating what local law enforcement agencies must already provide to public housing communities. Sixty-five percent of PHDEP funds are spent on prevention and law enforcement enhancement activities. However, seven eligible activities that are not provided by, but may enhance services from, local law enforcement agencies are:

1) Physical improvements such as lighting, fencing, or controlled access systems.

2) Intervention and prevention programs to reduce the use of drugs in and around public housing developments.

3) To provide funds to resident management organizations for security and prevention programs that involve residents of the development.

4) Employment of site security personnel.

5) Employment of investigators to support judicial proceedings.

6) Reimbursement of local law enforcement agencies for additional security and protective services, and

7) Training and communications equipment for use by resident patrols.

Evaluating Successes of PHDEP Activities

According to a 1999 evaluation of prevention programs by the U.S. Department of Health and Human Services, Center for Substance Abuse Prevention, prevention does work. The Department published a study of eight drug-related prevention programs, which provide similar activities to those offered under PHDEP. Like PHDEP, the programs studied identified how local institutions can work together to leverage resources for activities that provide alternatives for low-income, at-risk youth.

The drug elimination grant program is an effective tool in reducing crime and drug activity in public housing throughout the country. In fact, there is a great deal of support for prevention programs that have proven to alter the behavior of at-risk populations and effectively address security concerns within local communities.

The Journal of the American Medical Association concluded that intensive parent-child involvement is critically important to enabling teens to avoid substance abuse and other at-risk behaviors. A significant percentage of PHDEP funds go to activities designed to facilitate such involvement and alter the environmental influences, risks, and expectations that may lead youth to drug abuse or violent crime.

The Drug Elimination Program seeks to address drug related crime in public housing because the low-income residents of federally assisted housing are disproportionately affected by violent and drug-related crime. NAHRO supports the restoration of the PHDEP program and funding of at least $410 million per year.

HOUSING AND COMMUNITY DEVELOPMENT NEEDS

THURSDAY, DECEMBER 13, 2001

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

The Committee met at 10:05 a.m., in room SD–538 of the Dirksen Senate Office Building, Senator Paul S. Sarbanes (Chairman of the Committee) presiding.

OPENING STATEMENT OF CHAIRMAN PAUL S. SARBANES

Chairman SARBANES. Let me call this hearing to order. Good morning. I am pleased to welcome everyone to the Committee's second hearing on housing and community development needs. I want to welcome Secretary Martinez and extend the Committee's appreciation to him for appearing today. We have been looking forward to this session. Mr. Secretary, we are pleased to have you here.

Two weeks ago, the Committee heard from a number of experts about the growing affordable housing problem in the country. Today, we are anxious to hear the Housing Secretary's perspective.

As my colleagues know, the Administration is in the midst of putting together its budget proposal for fiscal year 2003. Because that process has not yet been completed, and recognizing the constraints that the Executive Branch operate within, we have indicated to the Secretary that we understand that he cannot talk about budget levels for specific programs—not to us. He can talk to OMB, and we are hopeful that he is doing that, of course.

However, we have asked him to discuss what he sees as the Nation's needs in the area of housing and community development, particularly as the country finds itself in the first recession in about a decade now.

Let me talk about some good news. After stagnating and even falling in the 1980's, the homeownership rate rose to historic levels in the 1990's, particularly in the latter part of the decade. Improvements in minority homeownership drove much of this improvement. In fact, 40 percent of all new homeowners from 1994 to 1999 were minorities, even though minorities make up only 24 percent of the population. African-American and Hispanic homeownership rates grew twice as fast as the white homeownership rate.

Nevertheless, there continues to be a significant gap in homeownership rates between white and minority Americans. Closing that gap, we know is a priority for the Secretary. He testified to it right at the beginning in his confirmation hearing, and I am sure other Members of this Committee want to be helpful in that effort.

In this regard, let me just say that I am concerned about the Department's so-called clarification on the issue of yield-spread premiums, put out a month ago by the Secretary.

I do not want to divert over into that issue this morning, but I just want to note it because it is our intention to hold hearings on that subject early in the new year.

We are concerned because Assistant Secretary Weicher said that HUD was compelled to issue the new policy statement because of the decision in the Culpepper case. But in that case, the court actually found that brokers collected thousands of dollars in unnecessary out-of-pocket fees from FHA borrowers, in addition to steering them to higher interest rate loans in exchange for yield-spread premiums paid by the lender.

I understand that there is some rulemaking now going on in the Department with respect to this matter, and we obviously are very interested in that. Now as I mentioned we will come back to that subject, I anticipate, early in the new year.

I mentioned the general progress on homeownership. But there is obviously a growing problem in terms of affordable rental housing. In fact, HUD's own data show that nearly five million very low-income American families pay over half of their income in rent. A study by the National Housing Conference that looked at somewhat broader criteria than used by the Department, found that nearly 14 million families, including working families, face this same critical problem. Actually, the situation, worst-case needs among poor families, seemed to stabilize a bit, but the number of working families carrying severe housing cost burdens has risen rather dramatically.

There are 33 States in the country in which two full-time minimum-wage earners in a family were not sufficient to rent a modest apartment, paying 30 percent of a family's income. And we will put a chart up that shows this development.

We find that in the past decade, the number of units available to extremely low-income renters has dropped by almost a million units, a loss of 14 percent. Obviously, this is a matter of some concern and it is something we will go into with the Secretary in the course of the question and answer period.

The Committee is anxious, Mr. Secretary, to work with the Department in a cooperative way to get at this problem. We know of your own commitment to addressing affordable housing issues, both in your testimony here and in your speeches around the country, and we want to join together in a partnership effort to really get at this problem. We appreciate your being here.

I yield to Senator Gramm.

Senator GRAMM. Mr. Chairman, could you give us a quick summary of what these colors mean over here? Housing wage.

Chairman SARBANES. Yes. What that shows is what—if you accept the standard that you pay 30 percent of your income for housing, then this shows what a two-bedroom apartment would cost.

Senator GRAMM. Okay. Got it. At 30 percent of your income.

Chairman SARBANES. At 30 percent. It would show what income you would have to have to be able to afford that. Now the dark areas are worse than the white areas.

Senator ALLARD. That is the hourly wage?

Chairman SARBANES. That is the hourly wage.

Senator GRAMM. It must be a monthly wage.

Chairman SARBANES. The dark area is the hourly housing wage at more than twice the Federal or State minimum wage.

For instance, in Texas, you would have to have a wage of $12.56 an hour.

Senator GRAMM. Okay. Got it.

Chairman SARBANES. In order to be able to—so it shows the gap between minimum wage, and that wage is needed to be able to afford housing.

Senator GRAMM. To meet that goal.

Chairman SARBANES. Which is the standard criteria. It is the one HUD itself uses, as I understand it, in measuring needs.

So it shows you the gap between what people earn, conceivably what they earn, and what they have to earn in order to be able to afford housing.

Senator ALLARD. And so, is that all rentals or is that just housing rentals?

Chairman SARBANES. That is the fair market rent for a two-bedroom unit at 30 percent of income.

Senator ALLARD. Two-bedroom unit, whether it is a house or whatever.

Chairman SARBANES. Yes. Actually, it is a helpful illumination of the problem of this gap between income and the cost of affordable housing. I think it is a fairly illustrative way of demonstrating that.

Senator Gramm.

STATEMENT OF SENATOR PHIL GRAMM

Senator GRAMM. Well, Mr. Chairman, thank you for holding this hearing and Mr. Secretary, thank you for testifying.

I would have to say that next year, I will enter my 18th year as a Member of the Banking Committee, and I have been very actively involved in many issues in this Committee, but HUD is an area that I do not feel that I have ever gotten my hands around, nor do I believe this Committee has ever done that.

Chairman SARBANES. And he may do it this coming year.

[Laughter.]

Senator GRAMM. This is my last year.

[Laughter.]

Let me first say that when I came to Congress, as an intellectual debate I had with myself was whether or not it was rational that the American society has decided to provide such heavy levels of subsidy to homeownership.

From an economic production point of view, in allocating resources to maximize gross domestic product, at least in the short run, you can make a very strong case that we grossly over-invest in homeownership.

I believe the problem with that argument, however, is that homeownership has a profound impact in a democracy. It gives people a stake. I do not want to turn this into a partisan issue, but I think my colleagues might be interested in this.

In 1990, I was running for reelection. I had a lot of money and I did not have a very well-financed or strong opponent. And so, I

did something very few politicians do. I did a poll of 3,000 samples. I did not ask a lot of questions about what people thought, but I asked a very large number of questions about people.

I found 258 people who said that they were on welfare. I looked at a lot of factors, but a thing that struck me, and I have never forgotten, as no politician would ever forget such a number—if you were going to pick one variable in all that data to determine whether someone had a favorable impression of me, the guy paying for the poll, homeownership was the strongest predictor.

Interestingly enough, the second strongest predictor was someone working in the private sector of the economy. At the same income and education, whether they worked for the Government or the private sector made a profound difference. So I have been a strong believer that homeownership is vitally important.

[Laughter.]

I think that our achievement in the 1990's in expanding homeownership in that golden economic age that we were in, in expanding homeownership among minorities, will pay big dividends in America's future. I do believe it changes family histories when people get an opportunity to own their own home. So it is something that I am very much committed to.

And the points I would like to make are the following. I am interested in what the budget's going to be. But I am far more interested in your effort to look at all these programs that we have added over the years and to try to determine, do we have a rational set of programs? Should we try to consolidate some of these programs? To what extent are programs efficient in actually getting the help to the people we are trying to help? To what extent is public housing a way station on the road toward homeownership? To what extent is it a dead end? Those are the things that I am interested in. And these are very difficult problems.

So I just want to say to you, when you were here being confirmed, the point that I made and I wanted to reiterate now, is that you are in the process of learning your new job. But one of the things I want to urge you is to commit the time, energy, and resources to really understanding all these programs.

We add new programs. We never get rid of old programs. Often, they overlap or they are contradictory. I believe that this Committee would be receptive to proposals where you could show that we could improve the bottom-line effectiveness in improving housing and improving homeownership that would represent some substantial changes in housing programs.

So I hope as we get into the spring, as you reach the point where you have learned how to do this job and you have gotten your staff in place, I hope you will make recommendations to us as to how we could help improve the effectiveness of this program.

We are spending a lot of money. We want to spend it wisely. And any input you would have, I can at least commit that we would work to give it serious consideration.

Thank you, Mr. Chairman.

Chairman SARBANES. I would just note that despite this political correlation that has just been established, I still remain a very firm proponent of expanding homeownership. Either that demonstrates

my undying commitment to homeownership or it demonstrates some political softening of some sort or the other.

[Laughter.]

Senator GRAMM. No, I think it represents the triumph and love of America with self-interest.

[Laughter.]

And I commend you.

[Laughter.]

Chairman SARBANES. Senator Reed.

STATEMENT OF SENATOR JACK REED

Senator REED. Thank you very much, Mr. Chairman, for holding this hearing. And thank you, Mr. Secretary, for joining us today.

I believe that that chart indicates that in many regions of the country, rural and urban, there is a housing crisis, an affordable housing crisis. My home State of Rhode Island is no exception to that. We fall in that band of places where you have to work exceptionally hard just to meet the minimum requirements for affordable housing. And as Senator Gramm pointed out, not just homeownership, I believe, but also decent housing has a profound effect on many things.

We are today finishing up an education bill. One of the things we found, that children who move from house to house, rental unit to rental unit, do not seem to do as well as children who are in stable, decent homes. And so, your task of affordable housing impacts fundamentally on so many other different aspects of American life, and that is why it is so important.

We have found, interestingly enough, in Rhode Island, even with the significant subsidy to homeownership, that our homeownership rate has fallen, actually. The rest of the country is rising—it is falling. One reason is the fact that there is a growing gap between affordability for homes and the price of homes.

The luxury market is fine. You can buy a $600,000, $700,000 house in Rhode Island. What is difficult to buy, in fact, these listings have fallen 50 percent, is the modest, first-time homebuyer's special, if you will. And that is a crisis.

A lot of our problems go, particularly in the multifamily area, to production. We have not provided the incentives and support for production we need. We have a growing population, growing concern, growing need, but not the supply.

And I would hope that in the budget that we face next year, and particularly in my capacity as Chairman of the Subcommittee, we will work very closely to see if that production bottleneck can be breached and we can produce more homes, more rental units in the United States.

Finally, there is one area that is sometimes overlooked, and that is, we still have a profound homelessness problem in this country. We have families that are literally sleeping on the floors of our social welfare agencies in Providence, Rhode Island because there is not affordable rental housing for them, even on a temporary basis.

So, the challenges are great and our commitment will be measured not just by this hearing, but by what is in this budget coming up. And I urge you to work so that it is a good budget for housing.

Thank you, Mr. Chairman.

Chairman SARBANES. Thank you very much, Senator Reed.

I will recognize Senator Allard now.

I would comment that Senator Reed, as the Chairman of the Subcommittee on Housing and Senator Allard is the Ranking Member, have been working quite hard on a number of housing issues and we are most appreciative to them for the work that is being done in the Subcommittee.

Senator Allard.

STATEMENT OF SENATOR WAYNE ALLARD

Senator ALLARD. Well, thank you, Mr. Chairman. I want to commend you for holding this important hearing and follow up on your comments. It is a pleasure to work with both you and Senator Reed on these housing issues.

I also want to join you in welcoming Secretary Martinez to today's hearing on housing and community development needs for America. I would like to follow up a little bit on what Senator Gramm had mentioned.

When I was Chairman, just a little over a year ago now, we did have a number of hearings on what could be done to consolidate some programs. And one of the areas that we looked at is whether the program was authorized by Congress or not.

I would suggest that maybe you have your staff go back and review some of that testimony that we had collected if you are really concerned about following up with Senator Gramm's comments, and Senator Reed's comments on production.

Also, I do think that we need to solicit the support of local governments with a national effort because there is some prejudice at the local level against affordable housing projects. For example, there are some manufactured homes in the State of Colorado which I represent that are very nice homes. In fact, I am not sure they are better than standard construction homes.

We passed some recent legislation in here that actually helped improve that even more. And there is a prejudice sometimes among neighbors and City Council people and county commissioners not wanting to have that kind of construction.

But what has developed in Colorado—actually, there is community living with swimming pools, game rooms, recreation rooms, and everything else. And there is plenty of opportunity in that area if we seek it out.

I would also say that after your first year, it is hard to imagine that almost a year has gone by now since you have been in office. It is clear that you and the Administration are working hard to focus on HUD on its core mission of increasing affordable housing. And I want to congratulate you on that.

In my office, we are receiving regular reports that the morale of the Department has risen and that there is a real sense that you value the professionals at the Department and that you are determined to move HUD aggressively away from its troubled past. And it is clear that you and your team are acting quickly to streamline management, reduce duplicative programs, and create a more efficient agency.

The tone which agency heads set is very important. You have indicated a strong desire to work with Congress, the General Ac-

counting Office, and HUD partners to improve the quality of services. I would urge you to continue to emphasize the Government Performance and Results Act. Through this tool, we judge programs here in the Congress by the results and not their budgets.

I also want to thank you, Chairman Sarbanes, for having the Committee act on the HUD Inspector General nominee. It is critical to have an IG in place. Mr. Secretary, you deserve a full team.

I am pleased to see the Administration's strong emphasis on the expansion of homeownership, particularly among minorities. HUD plays a critical role in expansion of the American Dream.

This commitment is reflected in the President's American Dream Downpayment Fund and programs to make FHA more competitive in the home mortgage arena. It is also encouraging to see a focus on simplifying the home-buying process. I hope we can begin to see a reduction in some of the paperwork involved in a home purchase.

Let me conclude by noting that earlier this year, the U.S. Senate committed to work with Habitat for Humanity to build a home in each State. Last weekend, we dedicated one in my hometown of Loveland, Colorado.

I want to commend the President and the Secretary for their commitment to this and similar sweat equity programs. This is an example of where HUD can work with nonprofits and faith-based partners to create more affordable housing in our Nation.

And thank you for being here, Mr. Secretary. I look forward to your testimony.

Chairman SARBANES. Thank you very much, Senator Allard.

I might note, Mr. Secretary, that we passed that manufactured housing bill here in the Committee.

Senator ALLARD. Yes.

Chairman SARBANES. That was when Senator Gramm was the Chairman.

It is administered and implemented by HUD. But part of our thinking in doing that was that by, in effect, raising the standards, we give people more assurance and confidence about the quality of the manufactured housing that would address the issue that Senator Allard was raising.

So that is down in your bailiwick now.

Secretary MARTINEZ. Yes, Senator.

Chairman SARBANES. Senator Bayh.

STATEMENT OF SENATOR EVAN BAYH

Senator BAYH. Thank you very much, Mr. Chairman. And thank you for holding this hearing today.

As Senator Gramm mentioned, it really involves more than economics and just housing *per se*. It really involves here the American Dream and what percentage of the American people have the opportunity to achieve the American Dream, as Senator Gramm said, or having a stake in the economic vitality of the country.

Mr. Chairman, as you mentioned, for too many Americans, this is still beyond their means. Nearly five million very low-income people, defined as those 50 percent at the median income level and below, live with worst-case housing needs. Ninety-four percent of these families, I think as you mentioned, Mr. Chairman pay more than half of their income each month in rent.

So for these Americans, affordability is a very real issue. And I think about 11 percent, Mr. Chairman, live in every substandard housing conditions. With all of the progress that has been made, we still have important work to do.

As we focus on these important housing needs, I would like to raise an issue that directly impacts the housing and community development of my State of Indiana, Mr. Secretary. I believe it also affects this important issue in Senator Santorum's State, and Senator Allard's State.

Over the previous months, we have been seeking a legislative remedy to a number of technical limitations that the community builders, in conjunction with the cities of Indianapolis, Pittsburgh, and Denver, have encountered under the Multifamily Assisted Housing Reform and Affordability Act.

Our amendment would allow the community builders in the cities of Indianapolis, Pittsburgh, and Denver to replace old and dilapidated public housing buildings with new townhouse-styled housing for low income families. We proposed an amendment that, according to the CBO, would have almost no cost. Our proposals are based on plans that are supported by the tenants and the mayors of all three communities.

Mr. Secretary, without this legislative fix, the project at Indianapolis will not be able to go forward. The property would remain in HUD's hands and end up costing the American taxpayers more money. This is just the kind of wasteful, senseless outcome that has really led too many Americans to not have confidence in government's competence to manage our affairs.

And I regret to report, Mr. Secretary, that so far, HUD has not been very cooperative. As a matter of fact, has obstructed our ability to get this amendment passed and continues to obstruct our ability to get this amendment passed. In fact, I have been informed that your staff has not been very responsive at all and has really been unwilling to engage in any meaningful discussions about this amendment whatsoever.

I cannot stress enough the importance of this proposal to low-income families in Indianapolis and the economic development of our capital city. If this legislative remedy does not go forward, HUD will have caused the City of Indianapolis and other communities to undergo a substantial setback in the area of affordable housing.

So it is my hope that this initial reaction by the Department and the staff will not cause you to not address this issue in a positive manner. I hope that we can have a dialogue here later today about a prompt resolution of this matter because it is important.

Until then, Mr. Secretary, I must say that my confidence in the Department has been undermined to such a degree, that every appointment and every item in the budget deserves added scrutiny, because if HUD can be so in error and unresponsive on this important matter, quite frankly, the possibility of error and unresponsiveness on other important matters is heightened in my mind.

I regret the need to point this out to you today, but we have tried continually and just have not gotten any satisfactory response yet. So I hope we will have an opportunity to address this and again, I thank you for coming, and I look forward to working with you on this issue.

Secretary MARTINEZ. Thank you, Senator.

Chairman SARBANES. Thank you very much, Senator Bayh.

Mr. Secretary, I might say, I have discussed this Indianapolis situation with Senator Bayh and it seems to me the merits are very strong in favor of what Senator Bayh has said. And we hope that the Department can take a more careful look at that situation.

Secretary MARTINEZ. What I would like to do, Senator, if I may, is just comment momentarily on this, is to give you our reasoning and then, of course, this lies within the prerogative of the Congress as to what you wish to do with the proposed amendment. But I want you to understand at least where we are coming from.

It is not our desire to be obstructive and it is not our desire not to cooperate with what seems to me an obvious good reason. But there are some policy implications that you should be aware of, and then you can make a judgment as to——

Chairman SARBANES. Well, we may pursue that during the question and answer period.

Senator BAYH. I would be happy to. It does lie within the prerogative of Congress, Mr. Secretary. But my understanding is that the House conferees have been carrying HUD's water on this issue.

Secretary MARTINEZ. Well, do we want to go ahead and get into it now, or should I wait?

Senator BAYH. No, wait.

Chairman SARBANES. Why don't we wait. I hear a rumbling here about waiting.

[Laughter.]

Senator Crapo.

STATEMENT OF SENATOR MIKE CRAPO

Senator CRAPO. Thank you very much, Mr. Chairman. Mr. Secretary we appreciate you coming to visit with us today about the critical issues we are going to cover.

And I appreciate the fact that you will not be able to discuss the fiscal year 2003 budget in any detail. But I believe that we can discuss a number of the critical issues relating to the core mission of HUD, which has already been indicated to be helping families get affordable and good housing.

In reviewing your testimony that you have prepared, I was pleased to note the strong support that HUD is giving to the kinds of programs that do make a big difference for those who would like to get into first-time homeownership and to improve their homeownership situation, as well as focusing on those who may not be in a position to seek homeownership, but will need to have rental opportunities that are important to them.

I was pleased in particular to see that you were a strong advocate for the Habitat for Humanity program and I think most of us here have participated in that in one way or another. But it is good to see HUD focusing on programs that recognize that the right kind of policies that we need to pursue in this country to truly make a difference.

I believe the more we recognize what happens in the marketplace and how we can incentivize and provide the opportunities for people to obtain first-time homeownership or to improve their homeownership circumstances, or to get better advantages in the rental

markets, then we will make a very big difference. I also was very pleased to see that you have a strong focus on reform of RESPA—the Real Estate Settlement Procedures Act.

I believe that that is one of the things that can make a very big difference in this country. As we have seen the regulatory burdens and the bureaucracy around the mortgage process and just the process that a person has to go through to purchase a home increase to the point where it has become an economic obstruction to the ability to purchase a home. I will not go into any other details, except to say that I wish that I had talked to Senator Gramm before this hearing today.

I was criticized in my home State about a week ago by a newspaper editorial, amazingly, in my opinion, for supporting a tax credit for first-time homebuyers. I wrote back what I thought was a fabulous response, but I missed one really good reason that I did not know about that Senator Gramm has identified here. And that is the political aspect of homeownership. So I am going to investigate that a little bit further.

However I believe that we have to do everything we can in this country to focus on the right kind of policies to increase the opportunities for all Americans for homeownership in particular. And I appreciate the work that the Department is undergoing to identify the right policies that we need to focus on and give us guidance here in Congress as we develop the national policy.

Thank you.

Chairman SARBANES. Thank you very much, Senator Crapo.

Senator Miller.

COMMENT OF SENATOR ZELL MILLER

Senator MILLER. Thank you, Mr. Chairman, and thank you, Mr. Secretary.

I have no statement at this time.

Chairman SARBANES. Thank you.

Senator Bunning.

COMMENTS OF SENATOR JIM BUNNING

Senator BUNNING. Thank you, Mr. Chairman, for holding this very important hearing. And I would like to thank the Secretary for taking time out of his busy schedule to testify before us today.

We have already heard from many different interest groups, housing experts and State and local authorities, on what they think should be in HUD's budget. Now we are going to get a chance to hear from you. Since everyone here is much more interested in your statement than mine, I will stop now.

[Laughter.]

Secretary MARTINEZ. Thank you.

Chairman SARBANES. Senator Stabenow.

STATEMENT OF SENATOR DEBBIE STABENOW

Senator STABENOW. Thank you, Mr. Chairman. I would submit my full statement for the record.

But I do want to welcome the Secretary and stress, as my colleagues have, that we are all aware that there is no question that we face a critical housing shortage in this country and that we all

have a responsibility to work together to address this on behalf of our families.

In Michigan, a person must make $12.35 an hour in order to be able to afford a two-bedroom unit at fair market rent using the 30 percent of his or her housing expenses, as has been indicated on the chart. This is 2½ times the minimum wage.

It is not just in Michigan, but across the country, that we have families that are working hard every day and struggling to be able to provide housing and a roof over their heads for their children.

Further, in the midst of the recession, with mixed signals about when we will see an economic recovery, there is going to be an even greater demand for HUD services in the coming year. So we have a real challenge in front of us. And I must say, Mr. Secretary, that when you came before the Committee last April, I expressed my disappointment in the White House-proposed HUD budget at that time. And as the Chairman and others had pointed out, there were serious accounting questions such as how yet unexpended but already obligated funds were treated. And equally alarming, the White House budget consolidated funds in a way that are forcing those underfunded programs to compete against each other.

I am also very concerned about the fact that the Public Housing Drug Elimination Program earmark was eliminated and I am hopeful that in this coming budget, that you will explain to us how you intend to move forward through the HUD budget in promoting a comprehensive drug prevention strategy because, certainly, the challenges have not gone away and the safety issues for our families have not gone away just because we have not been designating specific dollars for drug treatment and drug enforcement programs.

I would also indicate that as we are talking about HUD programs and the importance of homeownership, that I would urge you to continue to be supportive and to speak out on issues of predatory lending, when we do have our low-income or moderate-income homeowners that find themselves with equity in their home and then they become victims to predatory lending, to attempt to strip that equity out of their home.

We are defeating the whole goal of homeownership and the ability to save through equity in a home. And I am very appreciative of the Chairman's leadership on the issues of predatory lending and see that there is a direct correlation.

And finally, Mr. Chairman, I would just, on a personal note from Michigan, want to indicate that the holiday tree in front of the U.S. Capitol is from the great State of Michigan this year. It is called the Tree of Hope.

And I mention it because we have made a commitment that the lumber from this 73-foot tall tree that is 44 feet wide will be going back to lumber for Habitat for Humanity homes in Michigan. It is a very strong commitment on the part of all of us in Michigan that that excellent program is part of our housing strategy.

Chairman SARBANES. Thank you very much, Senator Stabenow.

Senator Corzine.

STATEMENT OF SENATOR JON S. CORZINE

Senator CORZINE. Thank you very much, Mr. Chairman, and I appreciate your holding this hearing as well.

I certainly welcome the Secretary. I want to identify with the remarks from the Senator from Texas. I do not know whether I am correlated with homeownership in the vote that we have gotten, but it is a fundamental foundation to the success of our Nation. That is why this issue is so important.

Frankly, I am very concerned about the growing depth and lack of affordable housing. I will not cite the statistics that a number of my colleagues have on worst-case needs and the growing percentage of people there.

I will cite in my own home State, we beat Michigan. It is $17.87 an hour to afford fair market rent for a two-bedroom dwelling. It is the third-highest in the country. And we have a very real and growing homeless problem because of lack of affordable housing. It is over three times the minimum wage and is a serious burden for people who live in our community.

I also identify seriously with accountability and making sure we have efficient programs. But the commitment that we have made not only in this Administration, but over the last 25 or 30 years, is less than I think is reflective of the needs of our country or the value of homeownership and quality living.

When we have only gone from a budget of $29.2 billion in 1976, which we heard in testimony 2 weeks ago, to a budget of $30 billion, when you put that in the context of cuts in the public housing capital fund that were in last year's program, the zeroing-out of the Public Housing Drug Elimination Program, which you and I have talked about before, I have very serious concerns and many issues raised by the people in my community about this.

I have serious concerns whether the commitment to this is more than words. I believe we need to both have accountable programs that work, but we also need to make sure that we invest properly to make sure it happens.

I also want to align myself with comments made by Senator Stabenow on predatory lending. To the best of my knowledge, of understanding what yield-spread premiums are about, it is going to exacerbate some of those problems, some of the new rulings, to the extent that I understand how the secondary mortgage market works. And I am concerned whether it is moving in the right direction on those concerns.

I look forward to your testimony. I know your desire to have a strong and affordable housing base is sincere and I really do want to work with you to make that commitment something that works for working families and families across this country.

Chairman SARBANES. Thanks very much, Jon.

I might note to the Members of the Committee, that the Federal Reserve Board yesterday, in a unanimous decision, approved amendments to the implementing regulations of HOEPA, which will enhance consumer protections for mortgage borrowers. So it is a very significant and important step in this effort to deal with the predatory lending issue.

Mr. Secretary, we are pleased you are here. We look forward now to hearing from you. This actually gives all the Members of the Committee an opportunity to kind of leave their concerns with you as we prepare to complete the first session of this Congress.

So please go ahead.

STATEMENT OF MEL MARTINEZ, SECRETARY U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Secretary MARTINEZ. Well, first of all, Chairman Sarbanes, and Ranking Member Gramm, and distinguished Members of the Committee, it is a pleasure to be here with you today. I appreciate the invitation and I am delighted to talk with you about the ways in which the Department of Housing and Urban Development is trying to address the needs of the housing community in our country.

I also want to begin by thanking you, Mr. Chairman, and the Members of this Committee, for the advice, assistance, and your expertise as I have settled into this new community for me and new job. I also appreciate the positive working relationship that we have had. I also want at this time to thank you and the Members of the Committee, Mr. Chairman, for the timely action on all of the nominees. We still have a few pending, as we discussed. It has made a very important part of the process come to fruition.

I am very pleased with the people that have joined me at HUD. I think we have surrounded ourselves with people with public- and private-sector experience, with a great diversity of background and experience. And with your continued assistance, we hope to have our entire management team in place in the very near future.

Chairman SARBANES. The ones that are pending just got here. But we will see what we can do in the next few days.

Secretary MARTINEZ. One has been here. Two others just got here, correct. None have been delayed, by the way. It is all been happening pretty quickly. So we are just anxious to get it done, hopefully, before the break would be wonderful.

I should tell you that our job at HUD is made easier by the support of a President who is committed to HUD's mission of serving those in need, as well as revitalizing our urban centers.

President Bush is an active advocate for our work at HUD. He speaks passionately about the dreams a family can achieve through homeownership. He has joined me on two occasions to stress that point by building homes with Habitat for Humanity and wants to triple the funding for HUD for the programs that support the good work of Habitat and other like organizations. President Bush has directed this Department to serve those in need, and I strongly believe that we have a real opportunity to help more of them achieve their own American Dream. Despite the success of welfare reform, too many families still live below the poverty line. As a catalyst in our communities, HUD is putting its resources to work empowering citizens to lift themselves out of poverty and into prosperity. We have touched many lives this year in many different ways.

The Department reacted quickly and energetically after the events of September 11. I immediately required lenders to provide relief on FHA-insured mortgages for families of the victims and we urged conventional lenders to do the same. They responded and we have protected these families from the possibility of losing their homes. A short time later, Secretary Rumsfeld and I also announced the activation of the Soldiers and Sailors Relief Act, which provides assistance to National Guardsmen and Reservists who are called to active duty. It helps with their leases and it helps to ensure that they do not become prey to foreclosures. It also assists in keeping the interest rate at no more than 6 percent.

We all heard the news reports that housing rights of some Muslims, Arabs, Indians, and Pakistanis in our country were being threatened as a reaction to the violent attacks. I made it clear in a letter to more than one million realtors, bankers, home-builders, landlords, and other concerned parties that our country's laws enforced by HUD do not allow any individuals seeking housing to be singled out and discriminated against because of their heritage or religious beliefs.

HUD is also providing an additional $700 million in Community Development Block Grant funds to help stimulate New York City's economic recovery. We also allowed waivers of regulatory provisions for the HOME, Section 8, and public housing programs for the City of New York.

Helping families find affordable and decent housing has always been one of HUD's core missions. This means ensuring housing opportunities for those who rent, whether out of necessity or by choice. It also means creating new opportunities for homeownership so that more families can achieve what is envied around the world know as the American Dream of homeownership.

Soon after arriving at HUD, I took steps to focus the Department's attention on meeting these critical housing needs. As the Chairman pointed out, the Census Bureau reported in October that the homeownership rate reached an all-time high at 68.1 percent of all Americans. Historically, minority homeownership rates have been lower than the rest of the population. Minority homeownership stands at 49.2 percent, and while this is a record high and positive news, we must continue to do more to close this gap.

This year, HUD reached out to thousands of low-income families who find the road to homeownership blocked by high downpayments and as a result proposed the President's American Dream Downpayment Fund. We also put forward a new Federal Housing Administration hybrid adjustable rate mortgage which promotes homeownership by reducing initial home-buying costs. I thank the Congress for taking action on these two important initiatives.

If we are to expand the ranks of America's homeowners, we must address the challenge of making the home-buying experience less complicated, the paperwork demands less time-consuming, and the mortgage process itself less expensive.

To ensure that homeowners have information they need in order to make informed choices in the financing of their homes and settlement services, I have initiated an overhaul of the Real Estate Settlement Procedures Act rules. My intention is to improve the process of obtaining a mortgage so that consumers get simpler, clearer, and easier disclosure, thereby allowing them to effectively shop for the best mortgage to meet their needs.

My goal is to reduce the cost of a mortgage through informed shopping and competition. We also have preserved yield-spread premium as a valuable tool for opening the doors to homeownership. And Mr. Chairman, while I know we have a point of disagreement on that issue, and I know we may discuss it at more length at another time, I do want you to understand that Mr. Weicher's comments about Culpepper are rooted in the fact that the Culpepper decision itself found that our rule, the 1999 HUD rule, was ambiguous, and we felt it was important to clarify that ambiguity.

The needs for RESPA reform is even more urgent during times of economic uncertainty. Homeownership helps create financial stability for families. It also helps Senators from Texas. But it also returns and brings economic stability to our communities.

Homeownership is an important goal, but it is obviously not an option for everyone. I appreciate the need to expand the availability of affordable rental housing and ensure quality and options for its residents. The just-enacted 25 percent increase in the limits for FHA multifamily insurance will help to spur the construction and rehabilitation of affordable rental housing. I am also awaiting the recommendations of the Millennial Housing Commission as we look for ways to increase the supply of affordable housing and I will continue to urge our partners in the industry to do more in the area of affordable housing.

On the issue of affordable housing, and I would like to just point out that the fair market rent, which is a median rent, which is the basis of the chart, Mr. Chairman, is not the minimum housing, but it is a much higher standard. Most poor people are not seeking median housing. They are seeking minimum housing. So I think the standard of the chart and the premise of it may be subject to some discussion as to where we may end up on that.

Predatory lending and property flipping are abusive practices that continue to plague homebuyers in cities across the country. Senator Sarbanes, the Administration is particularly concerned about the situation in Baltimore. Since April, our Housing Fraud Initiative has resulted in 40 indictments, six Federal arrests, two State arrests, 27 successful prosecutions, and 66 debarments. We have provided relocation assistance to 46 families. We also worked with you, Mr. Chairman, to develop the Credit Watch legislation that was included in the fiscal year 2002 budget.

I am pleased with these accomplishments, but we know that there is more work to be done. HUD remains committed to addressing the problems in Baltimore, and we feel confident that the lessons that we are learning there can be applied around the country.

Exposure to lead-based paint is a serious problem and one that citizens, especially low-income citizens, deal with every day. Every American child deserves the opportunity to grow up in a healthy home, safe from the debilitating and often irreversible effects of lead exposure. Because the most common source of exposure is lead paint in older housing, HUD has a critical role in protecting our children. HUD awarded more than $67 million in grants nationwide in October to protect children from lead-based paint, with a focus on eliminating lead hazards in low-income housing.

At HUD, we are working to ease the daily struggles of those who live in the most difficult circumstances. And those certainly include the people in the colonias. Earlier this year, I traveled to the colonias—the communities along the United States-Mexico border that are steeped in poverty—to see the difficult living conditions for myself and to put in place a game plan for help. HUD has stepped in to offer assistance through grants that will bring water and sewer hook-ups, and a Colonias Task Force that I established to ensure that HUD programs make an impact in these communities.

In January, President Bush directed HUD to assist in his Faith-Based and Community Initiatives. We have studied the barriers

that prevent grassroots social service providers from reaching out in partnership with the Federal Government to help Americans in need. HUD has prepared a report examining what the Department can do through regulatory and management improvements to level the playing field and encourage greater acts of charity in our communities, while preserving necessary constitutional safeguards.

I would urge the Senate to take up the President's faith-based legislation before the Congress adjourns. This legislation is critical to helping HUD expand its partnerships with groups working to meet housing needs of low-income Americans, the elderly, the disabled, and those living with HIV/AIDS.

HUD has a special duty to the Nation's vulnerable population and this includes those who have no place that they can call home. Last month, President Bush announced the awarding of more than $1 billion to organizations serving homeless Americans—the largest homeless assistance in history. To streamline and focus the response of the many Federal agencies involved in delivering homeless services, I have reactivated the Interagency Council on the Homeless, which had been inactive for more than 5 years.

In addition, the Administration remains committed to expanding housing opportunities for people with disabilities. For example, the voluntary compliance agreement signed recently with the District of Columbia Housing Authority will provide more than 500 fully accessible public housing units to disabled residents. HUD continues to strive to ensure equal housing opportunities for all.

During the confirmation process, Mr. Chairman, I was led to understand from many Members of this Committee that HUD was plagued by mismanagement at many levels. I understood that meeting the needs of the American people meant improving HUD's management, and I assure you that I was prepared to take on this challenge.

In the past 11 months, HUD has significantly streamlined its management structure to improve the quality and delivery of services and restore the agency's credibility in the eyes of the Congress and the American people.

I set a goal that HUD address audit findings made by the Inspector General in a timely manner and make corrections that actually fix serious management problems. As a telling sign that we are committed to doing better, HUD completed the 6 month period ending September 30, with no overdue management decisions on any audit of the Inspector General that has 363 audit recommendations. This is only the second time that HUD has met the goal of no overdue decisions in all the years that the OIG has been reporting audit resolution activity to the Congress. Our goal is to deliver the best possible services to those in need and we have moved aggressively to ensure that HUD programs are getting the job done.

With the support of the National Education Association, the American Federation of Teachers and the Fraternal Order of Police, I suspended HUD's Officer and Teacher Next Door Program in April. This came after criminal charges were brought against buyers who purchased their homes fraudulently. We put into place aggressive monitoring and tightening controls to prevent homebuyer fraud and restarted the programs in August.

Working with the Congress, we terminated HUD's drug elimination program this year. This was a well-intentioned program that suffered from a large number of abuses, and duplicated the work of other Cabinet Departments. Despite the termination of this program, HUD's commitment to ensuring safe and drug-free homes for American families has not wavered. In fact, to partially offset the elimination of this program, the President's fiscal year 2002 budget proposed, and the Congress appropriated, an enhancement of the Public Housing Operating Subsidies, which local officials may use at their discretion, including for activities formerly supported by the drug elimination program. I will work with the Office of National Drug Control Policy to determine how best to capture and account for departmental funds used for drug control activities. In addition, I am working with the ONDCP, the Department of Justice, and other agencies in exploring ways to effectively meet this commitment.

Until this year, HUD's credit subsidy—which was used to cover expected losses on FHA multifamily loans—was fraught with uncertainty due to regular appropriations shortfalls. The department restructured the program to make it more self-sufficient and less dependent on taxpayer dollars. Since the restructuring became effective on October 1, 2001, HUD has issued firm commitments totaling $869 million for more than 10,000 housing units, nearly double the amount of the previous year.

I am proud of the strides we have made in identifying the programs that are meeting the needs of the people and identifying and fixing those that are not. HUD is quickly becoming a more efficient, more effective provider of the services no agency but ours can deliver. Mr. Chairman, I look forward to dealing with some of the questions that have been raised.

In closing, I just want to mention to you that I well understand that housing is really a nonpartisan issue, one that crosses the lines of party and politics, and I look forward to working with the Committee, and continuing to work with the Committee, in that spirit that will guide us into the future in a way that I believe will help the people of our country.

Chairman SARBANES. Thank you very much, Mr. Secretary. We appreciate your statement.

I would note that my understanding is that the fair market rent is set at the 40th percentile of rents in a metro area, not at the median. But we will develop that point.

Secretary MARTINEZ. We should probably have some discussion on that. I think it would be good for all of us to be sure we have numbers that we can agree on.

Chairman SARBANES. There is a vote scheduled for 11:00 a.m. Since I will be here in any event until the conclusion of the hearing, I know there may be colleagues who may not be able to return. And so, I am going to yield my time to any such colleague so that they have an opportunity now to engage in a discussion.

Senator Gramm.

Senator GRAMM. Mr. Chairman, thank you very much.

Mel, I want to raise one issue. I know how we can cut the cost of buying a house by between a quarter and a third for people that are participating in Federal programs aimed at lowering the cost

of buying a house. And the way to do it is to do something about title insurance.

Now let me make it clear that I am sure that everybody in the title insurance business are very fine people. It is not a question of any abuse whatsoever. I worked very hard against a determined lobbying effort to open up title insurance in our Financial Services Modernization Act. But that is not going to solve the problem.

The problem with title insurance is that the entity that requires it does not pay for it. So it is costless to the lender to require the title insurance. And basically, what happens is that I buy a title policy when I buy a house. They thoroughly search the deed. And then I sell the house to somebody else and in their closing, they have to buy a brand-new policy which does not build on the policy I have. We have had some minor reform when people refinance their note under certain circumstances. But even there, often you have to buy a new policy.

Now I am not saying that title insurance does not add value. But I am saying that it adds nothing like the value that it costs. And what has happened is—I do not know whether it is the power of the lobby or whether it is just inertia. But it seems to me that if a lot of the Government programs, including Freddie Mac and Fannie Mae, change their policy on title insurance. I mean, it is not as if this is a country that has clouded title any more. The risks involved in not having title insurance are minuscule as compared to the cost. And we are talking about big dollars on a closing.

I urge you to get your people to look at somebody who is getting Federal assistance, FHA or some similar program, look at their closing statements and look at the big chunk of money for title insurance. This cries out for something to be done about it. I just want to urge you to look at this. We could probably do more by fixing that than any increase in appropriations for HUD for housing that will be made in the next 8 years combined.

This is a really big item and you are going to run into a buzzsaw of political opposition in doing it. But heaven knows, it is the right thing. And I want to urge you to please look at this thing. This should be fixed. And it is not as if this is some trivial issue. The title insurance policy on the kind of house that the people who worked hard and bought their first home in Texas, and you look at what they have to put down on it, it is a big item.

So I want you to look at it and figure what you could do in changing your policy to do something about this requirement of title insurance. My guess is the cost, the social cost of its elimination—and I am not saying—if people want to buy it, great. But you are making them buy it. Your programs are making them buy it. And my guess is the social cost of not having it would not be one tenth of the cost of purchasing the policies, maybe not one hundredth. So anything in that range—I made those numbers up. But my guess is they are true.

[Laughter.]

Anything in that range ought to be looked at. And I plead with HUD to do that.

Secretary MARTINEZ. Thank you, Senator. I will take that to heart. And this is part of this comprehensive RESPA review that we are doing.

The fact is that the whole settlement process of homebuying and even refinancing is not transparent enough. There is not enough clarity in it. People do not know what they are paying for a lot of times. And the bottom line is that the mysteriousness of the process does not allow them to also compete for services. That gets back to the issue of yields per premium, a perfectly legitimate tool to assist the homebuyer with the initial cost. But at the same time, badly abused. And so, as we go through this process, I think that we will add title insurance to the list. I believe it is always on that list and I am aware of what you are discussing.

Senator GRAMM. Well, my guess is that most Americans have never had a closing that was not unpleasant.

Secretary MARTINEZ. Or that they understood, by the way.

Senator GRAMM. Well, because they did not understand it going in and they felt gouged.

Secretary MARTINEZ. And typically, because the good faith estimate was not particularly accurate at the end of the transaction where they had to come up with even more money. So this is what this RESPA effort that I am now undertaking is going to try to do. It is going to be controversial, I warn you now. It is going to require—I am just planning to call them as I see them, and that includes your suggestion.

Senator GRAMM. You look at title insurance.

Secretary MARTINEZ. So we will be there. Thank you.

Chairman SARBANES. Senator Reed.

Senator REED. Thank you very much, Mr. Chairman. And thank you, Mr. Secretary, for your testimony.

The FHA multifamily program has shut down because of a lack of credit subsidies. And the industry estimates that just the last year alone, 55,000 apartments were not built because the program stopped. In an effort to ensure that the programs are able to continue in the future, HUD increased premiums on the program.

There are many in the industry that would argue that if the credit subsidy is calculated and allocated properly, there would be no need to increase the insurance and the subsidy would be adequate for a full year of production. And when Secretary Weicher was here, he commendably volunteered to work with industry to try to resolve the issue. I wonder, has HUD completed its review? And if so, can you share your findings with us?

Secretary MARTINEZ. I am not at this point able to share the findings with you. We are closing in on that process, and I believe it will be positive news to the industry. But I do not think that we are in a position today where I can disclose the numbers to you.

One thing that I will say, by the way, that the elimination of the subsidy has had a very positive effect. I think the dire warnings that there would be a stop to multifamily housing production have not taken place and, in fact, the numbers that I have discussed in my testimony suggest that there has been almost a doubling of the business that we did a year before. So I believe the certainty of the subsidy being there, even at a premium increase, is well worth the offset of having a subsidy that was there and not there.

But we will get back to you very soon with some finality to that. And as I say, my sense is that the 80 basis points is higher than it is going to be in the future.

Senator REED. Well, thank you, Mr. Secretary. Again, I think this is an important issue because we all, I believe, and hope, recognize that there is a production problem in the country that is causing higher rental rates in terms of payment of rents. This seems to me not completely costless, but a very efficient way to perhaps increase production.

Secretary MARTINEZ. Another way, I might point out, to increase production, the Congress just acted in the prior budget year on the 25 percent increase of FHA minimums for multifamily housing.

This again is going to have a very positive effect. We are already seeing the impacts of that. We are getting loan applications from communities that we had not heard from in many years—Los Angeles—I cannot think of others, but three or four around the country, where very pointedly, they are coming in now where none had in the past. So, clearly, this raising of the loan limits for FHA multifamily, the credit subsidy issue, there are several things that I think we have done already and are in the process of doing, I believe will have a very positive impact on the affordable housing shortage around the country.

One other thing I will say on that issue, too, Senator, is the fact that I believe dislodging HUD's management tangle with improved management in our field operations, more direct reporting, more autonomy in the local field offices, will make HUD a more, develop a friendly agency, which will encourage people who have not been in the affordable housing business, to perhaps get back in it and gin up production of multifamily housing in the affordable area.

Senator REED. Thank you, Mr. Secretary. Let me turn to another issue—the mark-to-market reauthorization legislation.

We have tried to move it expeditiously through the Congress. One reason is that there was a fear that the staff of OMHAR would leave if there was an uncertain resolution to the mark-to-market. We are hearing now that because HUD has not moved quickly enough, that the staff is leaving and that the program integrity is being lost because the very skilled people are leaving there or propose to leave there. Can you comment upon that situation?

Secretary MARTINEZ. There is a long lingering sensitivity between the Department and OMHAR, that the direction in which it is moving is to be part of HUD in a more integrated way.

I think that we are doing all that we can in what is a difficult situation in terms of just people and personalities and so forth. But, ultimately, OMHAR, which took a long time to ramp up and do the things that we needed it to do, is now moving in a positive direction. We want that to continue to occur. We hope that the people who are there will choose to continue to be employed by the restructured OMHAR. The program is vitally important to keeping a lot of affordable housing out there. And we will do all we can within reason to keep those people and to make that transition as smooth as possible.

Senator REED. Thank you, Mr. Secretary.

Turning to another issue, and that is Section 8 vouchers. One of the challenges that you face is the increased cost of renewing Section 8 vouchers as we go forward. Those costs increase both to cover the natural cost of inflation and because a number of long-term contracts are expiring and need to be renewed. We heard an

estimate at our last hearing that the cost of renewing Section 8 will be about $1.8 billion next year. I wonder if you have a sense of whether or not that number is accurate and also, whether or not you will have the resources to cover those costs.

Secretary MARTINEZ. I think the number is too high. I think the number is lower than that. It is still a substantial figure. The whole issue of Section 8, whether it be project-based or tenant-based, I think that while it provides a very useful vehicle for families to receive rental assistance, the fact is that one of the real problems in the Section 8 program, as we always see increased vouchers, is the recaptures. About $2½ billion of Section 8 vouchers come back and get recaptured every year and then get spent in things other than housing.

I would like to see the Congress in this coming budget year to give us the authorization to reallocate Section 8 vouchers on a permanent basis because we just have to face the fact that Section 8 vouchers work in some communities, and do not work as well in others. There is a historical pattern where some entitles at the local level are able to use all their Section 8 vouchers and have a waiting list and there are others where they year after year do not get used. We need to be able to equalize that in a better way than we have been able to do in the past.

Senator REED. Well, let me make a final comment and yield my time, whatever is remaining, back to the Chairman.

Secretary MARTINEZ. Yes.

Senator REED. In some respects, all roads seem to lead back to production, or at least availability of affordable housing, because if you do not have enough money to renew the Section 8 voucher program, then you will lose units. And indeed, if you are struggling with renewal of Section 8's versus other housing production programs, and with respect to the nonuse of Section 8, many times—and I am speaking from my experience in Rhode Island—it is the fact that the voucher just does not cover the prevailing rent, and that people have a voucher. They walk around with it for a couple of weeks or months, and they cannot find anything that they can spend it on. And as a result, they are turned back, which goes again back to production, to having affordable housing there that they can use the vouchers.

So I thank you, Mr. Secretary, not only for your testimony today, but for your leadership.

Secretary MARTINEZ. Thank you.

Chairman SARBANES. Senator Allard.

Mr. Secretary, I might point out, Senator Bayh had to go preside in the Senate at 11:00 a.m. And he said he will get in touch with you personally and take up the Indianapolis issue.

Secretary MARTINEZ. I think I would like to get with the Senator, and perhaps Senator Santorum and perhaps Senator Allard as well, and have our Housing Commissioner and go through a thorough explanation of what I think is a honest difference of opinion that I think bears no relationship to whether, frankly, our nominees are qualified people or not. But the bottom line is that I want to resolve it in a way that at least allows us to agree to disagree, but at least to understand the basis for it.

It is not a desire to obstruct or not do something that appears to be sensible. It is something that would be quite a departure from current policy, to policy that has not been in effect since 1983, and frankly, I am being told would have a significant cost implication by subsidizing the rentals in these units for the next 20 years.

It is something that the Department a long time ago quit doing. And so, the bottom line is that there is clearly—I see some heads shaking behind you, Mr. Chairman and the fact is that there is obviously not a common view of the problem.

So we should sit down and resolve it and probably, this would not be the best place. But I am happy for Mr. Weicher and myself to visit with the Senators.

Chairman SARBANES. Well, if he were here, it might be the best place. But he is not here because he does not control the situation. He had to be where he had to be.

Secretary MARTINEZ. I understand.

Chairman SARBANES. Senator Allard.

Senator ALLARD. Well, just to follow up on Senator Bayh's concerns. We have a similar concern in my State of Colorado.

My understanding of the way the appropriations process is working right now is that the project in Pennsylvania is going to get accepted by the appropriators and the one in Indianapolis and Denver, Colorado, is not.

And if that is the case, then I think you need to relook at that because I think when you do it piecemeal like this, and if the appropriators can go ahead and do that, then I think that is the problem. Now I may be misinformed on that.

Secretary MARTINEZ. We clearly would oppose that. We do not favor the program in any one of the situations involved. They are all the same in terms of the implications to what I believe existing policy to be.

Senator ALLARD. But the fact is that the appropriator might have the final say on that.

Secretary MARTINEZ. Correct.

Senator ALLARD. And that may mean that the Pennsylvania project gets treated a little differently than the one in Indianapolis. And if that happens, then I think maybe we need to sit down and review the whole program and see where we are at, because once that begins to happen, then you are going to have more projects.

Secretary MARTINEZ. Basically, the difference is that we have a program—the purpose of OMHAR, and this is through OMHAR, is to preserve the properties that we now have, not to tear them down and build new projects. This is to tear down and rebuild. It is putting a Section 8—it is a HOPE VI spin on Section 8.

Senator ALLARD. Yes.

Secretary MARTINEZ. There is not a HOPE VI for Section 8. HOPE VI is for public housing. So it is attempting to do what HOPE VI does in the public housing arena, to do it in the Section 8 arena.

Basically, Senator, the thing that I want to make clear is that this is not out of some desire to just obstruct. It is out of a very honestly and deeply held opinion that this is not the direction that HUD has gone for many years. The restructuring through OMHAR is not to do what this is intending to do.

And in addition to that, it is a major change in policy. There would be about a thousand multifamily projects with Section 8 contracts eligible that are due to expire in the next 3 years, and a lot of this could be coming on. So we are starting a very significant precedent here if we do this.

I think with the eyes wide open as to what it implies, I think that the Congress can make a choice about what it wishes to do with it.

Senator ALLARD. I would just conclude my argument by making this point.

It is rental facilities on the same lot, the same location. What they determined is that it is easier and less expensive to tear down what you have and build new, and that needs to be looked at.

Secretary MARTINEZ. Well, I have gone around and around that with Senator Santorum on a few occasions. I think basically we are trying to protect the way the program is structured currently to be.

If it is the will of the Congress to change that and we want to take a different approach and allow for—I mean, it makes perfect sense. Senator Santorum has told me that this is going to make a huge difference in this neighborhood. If this does not happen, it is just going to be a bad project continuing to——

Chairman SARBANES. Well, if that is the case, why don't we make it work? The same thing in Colorado.

Secretary MARTINEZ. It ought to happen throughout. I do not think it ought to be treated differently in one community as another. The policy principles that we are opposed to are true in all three projects. It is not any different.

Senator ALLARD. Let me move on, Mr. Chairman.

Secretary MARTINEZ. Yes, sir.

Senator ALLARD. As you are aware, I am a strong proponent about the results act, which is outcome-based management. I use it in my business. When I was a Community Health Officer, we used it. We used it in management of our city and it was used in the management of the county in the area in which I grew up.

I believe that it is a good way to have accountability as you move into the budget process where you have specific measurable goals in which you can measure your outcomes. Will HUD's budget reflect the use of outcome-based management principles, either totally or partial? And if it is only certain agencies, I would be interested to know which agencies you would begin to move with.

Secretary MARTINEZ. Senator, we are trying to do that across the board. It lends itself more in some places than in others. And I do not know that I can detail for you which specifically today.

But the fact is that other principles in results management are well validated in the private sector and I think Government should operate with those same principles in mind.

I look at programs, for instance, and I want to mention one in specific—Youth Build. It is a very popular program and it gets funded very amply, and in fact, this year it got increases beyond what we had asked for. I really question whether Youth Build, for the amount we are spending, is having the kinds of results that are warranted given the expenditure of the dollars. I love kids and I love for young people to get a start. If it had not been for people helping young people, I would not be here sitting today.

But the fact of the matter is that we still have to be good stewards. It is a program that when you do simple math and you look at the per capita of it, I am not sure that it has the bang for the buck that we would like to see. So I am not saying by that it is not a program that we would continue, but the fact of the matter is that we ought to look at it and decide how we can make that program more effective to reach out to more kids.

It is only a $65 million program only helping 3,300 kids. Well, I was shocked when I saw how few kids we were helping through that program. There ought to be a way to make that apply to more.

Senator ALLARD. I think those kinds of programs get identified if we apply the principles in the results act.

Secretary MARTINEZ. Correct.

Senator ALLARD. I think it helps us as policymakers. There may be another program that does a better job. And right there within your budget, you can measure those results.

The other thing I wanted to bring up with you is, I have been informed that you are working on a project to identify the current number of programs in HUD. And I am wondering if you have completed your survey or not and what you found out.

Secretary MARTINEZ. Well, HUD is an agency where it has been a repository of all good ideas at one time or another. Some 350 programs are at HUD now. We are trying to identify each and every single one and each and every single authorization for the programs that we have.

We are not completed in that process. But I assure you, what I am trying to do is have a better handle and, if we can, combine programs, as we did with drug elimination. I think that we are going to end up with in that vein is a much stronger effort at drug fighting than we were by the drug elimination grants that were going directly to the housing authorities. So I believe that shows a willingness to try to correct something that was not working appropriately and to reduce the programs at HUD.

It is not about doing less for people. It is about how to best do it for people. And so, in that context, we will continue to aggressively look at our programs, try to continue to focus on our core mission. I think that what happens sometimes is that our good intentions leave us in places where we end up not serving what we are there to do.

If we do not provide shelter in the homeless arena, no one else can do that. But if we get bogged down and service programs that are really more designed for departments like HHS to carry out, or job training issues that are really more of what Labor does better, or Education, the fact is that then the shelter part of our programs suffer. And no one else is there to provide the shelter part of our programs. So I am trying to get better interaction with other Departments, creating the interagency council on the homeless is a good example of that, to try to make sure that we are at cross-departmental levels, working to ensure and to better see our programs have the desired effect.

Senator ALLARD. I want to congratulate you on trying to stick with the core mission of HUD.

Mr. Chairman, you have been very generous with your time.

Thank you.

Chairman SARBANES. Senator Stabenow.

Senator STABENOW. Thank you, Mr. Chairman. And again, welcome, Mr. Secretary.

There is no question that I think we all support the efforts to be effective with the resources available and to certainly ask the tough questions and make sure that we are meeting the goals, whether it is addressing homelessness—and you have talked in the past about chronic homelessness.

I believe we also, as we are looking at those who are chronically homeless, whether through addiction or mental illness, that while we are addressing this population, we need to also make sure that we are addressing those who are homeless as a result of post-September 11, the economic downturn, and that there are many challenges as it relates to the homeless and those who are wishing to purchase housing and making sure that that is available and that the right kind of quality of life is available to those who are in housing in terms of safety and so on.

I would like to go back to the issue of predatory lending for a moment. I know that the Chairman talked about the Federal Reserve and a very important change that they made as it relates to HOEPA yesterday. And I congratulate the Federal Reserve for moving forward. I know that Treasury Assistant Secretary for Financial Institutions, Sheila Bair, has recently been making comments on work that Treasury is undertaking to address predatory lending, including setting up a formal task force to develop best practices. And I am wondering if you are working with Treasury or what your intent is in terms of the issues of predatory lending.

Secretary MARTINEZ. Well, first of all, overall, let me say that we are very committed to the issues of predatory lending. Our Department has been working with Treasury in the Home Ownership and Equity Protection Act that the Chairman referred to and the Acts that were taken by Treasury—I am sorry, by the Fed—yesterday.

We continue to work very closely with the Baltimore task force on predatory lending and are using that as a bit of an example of what can be done in one community with very focused effort.

We have given the resources and the people to stay the course in Baltimore and to deal with predatory lending in one of the communities where it was most rampant and most difficult to stamp out. I think the results that I detailed are in my opening statement and speak for the fact that it is working in Baltimore. We look forward to replicating that in other communities where predatory lending is a particularly difficult problem.

So we are very much committed there and we continue to work with Treasury. Some of these issues relate to TELA more than they relate to things that we do at HUD. But nonetheless, working very closely with them in whatever comes up in that arena.

Senator STABENOW. Well, Mr. Secretary, I would invite you to come work with us in Michigan. We have been following the Baltimore model. Freddie Mac has been supporting our efforts in Detroit through their program, called Don't Borrow Trouble.

We have a very broad coalition that includes Freddie Mac and Fannie Mae and local lenders and fair housing alliance members, nonprofits that are very focused on this issue. We would very much welcome your involvement and HUD's involvement.

Let me just ask one other specific thing as it relates to policies, because one of the things that has come up over and over again as I have held community forums in Michigan and also as a constituent of mine, Carol Mackey, testified before this Committee back in July, on the issue of good faith estimates. I am wondering what your position is as it relates to a good faith estimate within 3 days of an application, whether or not that is adequate, whether there should be penalty for either failing to give the estimate or exceeding the costs of the estimate.

We are hearing over and over again of the good faith estimate 3 days before closing, substantially changing at the time of closing, and individuals not having the opportunity to look in detail at the changes, and finding, in fact, that what they thought they were doing in terms of signing on the bottom line, is very different from the reality of what happens at the time of the closing on the loan. So do you have a position as it relates to good faith estimates and consumer information being given ahead of time?

Secretary MARTINEZ. Absolutely, Senator. I think your constituent is absolutely correct. It is a bad practice for the public to receive a good faith estimate and only have 3 days to react.

My hope is, and what we are doing through this RESPA review of the rule process, is to try to give folks an opportunity to have a firm estimate at the time of application.

So prior to giving any money, turning over any money, that they would have a firm estimate of what the closing costs, the settlement costs, are going to be. That will then allow the consumer, with great transparency as to what is being charged and why and the costs on each and every subject of the closing costs. And the consumer then will have the opportunity to shop before they put down any money.

The problem with the good faith estimate at the tail-end of the process is it is only an estimate and it is not a firm figure, often subject to change. But it is also at the end of the process, when the person is now ready for closing. They really have no option to shop for services, to shop the prices of the settlement. So I am very committed to RESPA reform, and that is at the core of what RESPA reform will be about.

Senator STABENOW. Thank you.

Secretary MARTINEZ. Can comment on the issue of the homeless?

Senator STABENOW. Yes.

Secretary MARTINEZ. I believe that—I set a goal a few months ago that we should eliminate or should end chronic homelessness in a 10 year timeframe. Chronic homelessness is probably a third to 50 percent of our homeless population, and they are typically addicted or mentally ill. And they require a whole host of support that they are not always now getting.

There is another very vulnerable segment of that population of the homeless, which are the families. And oftentimes, that gets overlooked when we talk about that issue.

You speak about vulnerable communities and post-September 11. I am well aware of the difficulties that some communities face. My home community in central Florida has been terribly impacted by the events—the stoppage in travel, people not traveling to attrac-

tions, and air travel. It has had a very devastating impact in that community.

And in fact, part of what I hope would happen is that, in enacting the Faith–Based Initiatives now before the Senate, that this will assist us in getting more entities at the local level working with us and partnering with us to bring services to homeless populations, to break down so many barriers that are artificial, that really should not exist, and that will level the playing field.

Right now, we can do business with big people, like Habitat for Humanity. They have the resources to go through our very complicated process of dealing with, as a faith-based organization, of dealing with an agency like HUD. Smaller organizations do not have the patience or the resources to hire the lawyers and do the things they need to do to be able to do business with us.

We look forward to streamlining that and making that process more easy to access so that more organizations can work with us and bring those services in partnership with our dollars to local communities that need them.

Senator STABENOW. Let me just say in conclusion, Mr. Chairman that I would share your concern about eliminating the bureaucracy. I think that is a general challenge that we have across the board as we are addressing Government programs.

And certainly in HUD, I would welcome your simplifying that process, whether it be a current faith-based organization that is currently working with HUD. We have many groups that, regardless of what happens legislatively here, our faith-based organizations, faith-based nonprofits, that do wonderful work, that I would love to see expanded upon, as well as other important, nonprofits. I think if you can see that so that smaller organizations can be more directly involved, that would be extremely helpful.

Let me just emphasize again that the chronic homeless are a very important part of the homeless population. But as you indicated, there is a broader group. And unfortunately, oftentimes, when we start creating subsets, they end up being pitted against each other for limited resources, rather than expanding the resources to meet the true need of what is there. So, I would challenge you to look beyond and to expand what is available, working in partnership with the community to make sure that we are addressing the real needs.

Thank you.

Chairman SARBANES. Before I yield to Senator Corzine, I just want to make sure of where you stand. Is it the HUD position that it is not your job to provide supportive services with respect to the homeless?

Secretary MARTINEZ. No, that is not what I said. What I am saying is that there are a number of programs.

Chairman SARBANES. You said that you were going to focus on bricks and mortar, as I understand it.

Secretary MARTINEZ. Well, in a perfect world, Senator, we would do just that and then HHS would come in with the kind of services that they typically would provide in issues of mental health or addiction recovery and things like that. What is happening is that over a period of time, the HUD dollars that go to homeless organizations, because of the lack of services being provided by other or-

ganizations like HHS, have gone more to services and less to bricks and mortar.

What I would like to do, and what I am working on doing, is without leaving any gap in the provision of services, shift it so that HHS can take a stronger role in doing that which they should be doing, allowing HUD dollars to then be more geared toward the shelter dollars that are needed. So that none of this would be done in a way that would leave any programs ongoing without the assistance that they would need.

Chairman SARBANES. Are you familiar with the Culhane study out of the University of Pennsylvania with respect to providing support of housing for homeless people and the cost-effectiveness of doing that?

Secretary MARTINEZ. No, I am not.

Chairman SARBANES. Well, I would certainly bring that to your attention.

I would just make this comment and then I would yield to Senator Corzine. Then I may come back. I am getting more and more concerned here as I listen to this testimony today that there is more and more dogma beginning to gain ascendancy in the HUD approach to some of these problems.

I am very interested in practical, pragmatic solutions to these problems. I am not very interested in HUD drawing kind of fixed lines and saying, well, we do not do that kind of work. That is somebody else's work to do, even though that may mean that the problem does not get resolved.

I have a little of that concern over this Indianapolis and Colorado situation as well. Apparently, people have come forward with very carefully developed programs that would really solve a real problem that exists on the ground, and we do not seem to be able to get there. And I am concerned about getting there.

But I will pursue it later. Senator Corzine.

Senator CORZINE. Thank you, Mr. Chairman.

I want to go back to a basic question because I am not convinced that I am hearing the same thing from you that we may have heard from the witness panel that we had 2 weeks ago and what I certainly feel.

Do you think there is a crisis in public housing with respect to the shortage with respect to the amount of resources we as a society dedicate to the general problems that we have? Are we doing what we should be doing as a society? I am all for management. I believe strongly in making sure that we get bang for our dollar.

Secretary MARTINEZ. I think, Senator, there has been a pretty clear consensus over some years that public housing probably is not the solution to the housing needs of America. We have a number of public housing units that we have had for many years, going back to the late 1930's. And through HOPE VI, many of these projects which have fallen into disrepair and really were problematic are reemerging more as mixed-income communities and that type of thing.

Senator CORZINE. But HOPE VI is public housing.

Secretary MARTINEZ. Sure, it is public housing.

Senator CORZINE. No one is arguing that we need to stay in the same pattern of the kind of public housing that was created——

Secretary MARTINEZ. No.

Chairman SARBANES. I think if you struck the word public housing and used affordable housing, it would go more to the point that I think Senator Corzine is getting at. Do you think there is a problem with sufficient affordable housing in this country?

Secretary MARTINEZ. I think there is a need for more availability of affordable housing. There is affordable housing needs in my home community that I dealt with as a local official. And Senator Allard did point out the very serious problem, is that a lot of times you do get into conflict in communities that do not want to have affordable housing.

But, clearly, there is a problem and clearly, there is a need. And clearly, there is a number of things that we must do to address the need, including some of the things that I have talked about today that we have already begun to do—raising the multifamily limits in FHA, the credit subsidy issue, and things like that. But, clearly, there is a need.

Senator CORZINE. I think there are a number of individual steps. A number of us, including Senator Allard and myself, sponsored that here, the multifamily limit. But that was reflective of inflation and growth in the cost of housing. It was out of step with the real world to not have an increase in it.

But when you go back and, we had a budget of $29.2 billion in 1976, and now we have one of $30 billion, even whether we are managing well or we are not managing well, we are certainly not making a statement that in the world today, that this is the same kind of priority that others were thinking it was in those particular areas. I think we need to admit we have a very serious problem. I know we do in our State.

Secretary MARTINEZ. Correct.

Senator CORZINE. Whether you are using 40 percent of fair market value or 50 percent, $17,500, that is about a $40,000 income for an individual, maybe a little less than that.

That is what a lot of people consider the middle class. We have an availability, an affordability problem that I think needs to be dealt with.

Secretary MARTINEZ. I agree with you, Senator, and I am prepared to work on trying to find ways in which we can attack that problem, and I think we are doing some things on that already. More needs to be done. I agree.

May I point something out, though? I am not going to talk about the historical perspective here. Senator Sarbanes has been at this much, much longer than I have. But when you look at this Department and what the budget might have been in years past and what it is today, a lot has changed. This is a Department that had like 18,000 people, which is now being managed by 9,100 people.

So much has changed in the intervening years. I think your point is well taken as to the growth of the budget in this Department. But I think also a lot of underlying assumptions have to be also consistent in order for that analogy to be correct.

Senator CORZINE. As you know, one of my hot buttons is the Public Housing Drug Elimination Program.

Secretary MARTINEZ. Yes, sir.

Senator CORZINE. It was stated that we were going to reallocate a lot of these resources to other areas, that the purpose was good, that there were things that needed to be done. We had a difference of view about how much of it was poorly directed. Do you have a number about how much of the resources that were allocated—it is roughly $300 million, if I am not mistaken.

Secretary MARTINEZ. Three hundred fifty-eight million dollars.

Senator CORZINE. Yes. How much of that has been reallocated. And then to go at something that Senator Allard asked you—are we going to have standards of measurable results to see that those programs or those other initiatives are accomplishing what it was that at least I was hearing from the public housing officials in New Jersey, was a very meaningful, effective program in trying to hold back crime in the public housing arenas?

Secretary MARTINEZ. Let me answer that in two ways.

First, $150 million of the $358 million was reallocated at—I am sorry. Two hundred fifty million dollars out of the $350 million was reallocated to the operating fund for public housing. So it is a total drop-off of $108 million, not any more than that.

Senator CORZINE. That could be available for other elements other than drug elimination.

Secretary MARTINEZ. Right.

Senator CORZINE. This gets at the point.

Secretary MARTINEZ. No, but here is the thing. If an entity feels that they have a good program in drug elimination and they were using the program before, they can continue to use it now. If there was a place in which they were not particularly using the drug elimination program, they now have dollars available that they can use for something else. So it gives some local flexibility on whether or not they use the dollars—I mean, they have more availability now for these dollars and different usages.

But, Senator, I expect for you to hold me accountable as to whether or not we improve the climate in public housing as time goes on in terms of what we do to effectively fight drugs and other problems in public housing.

Second, there is about $800 million yet unencumbered in that fund that will be available over the next couple of years for public housing authorities to continue to draw on the drug elimination program. So while that is being drawn down, we are going to put other things in place which we think will be helpful in fighting drugs in public housing.

One thing I will say also is that my experience in this Department is that, oftentimes, frequent times, public housing agencies have difficulties in management. We are dealing now with serious problems at the New Orleans Housing Authority. It seems like we deal with these across the country at one time or another. San Francisco recently. Puerto Rico.

The bottom line is that when it comes to things like law enforcement, that there may be at the local level a disparity in the ability of local housing authorities to be good agents as it relates to managing public safety.

So my thrust is going to be to try to support them by having other governmental agencies that deal with issues of public safety and drug problems to assist public housing so that they can con-

tinue to do the things that they do and allow these other entities to come in and provide the support. Oftentimes, what has happened is that public housing has been set apart. The police do not go there. The local law enforcement says that is public housing.

I do not think that is fair. I do not think that is right. By having a drug elimination drug program, we are not taking the place of effective local law enforcement and other things like HIDA funds and other drug funding that comes through our drug czar's office.

Senator CORZINE. In the fullness of time, I would love to see how we are doing with regard to measurable statistics with respect to how crime in public housing is doing.

Secretary MARTINEZ. We will work with you, Senator, and bring to you——

Senator CORZINE. And make sure that we are actually having the kind of response we are talking about relative to where we were.

Secretary MARTINEZ. Thank you.

Senator CORZINE. Thank you, Mr. Secretary.

Senator REED. Mr. Chairman, would you yield for one moment?

Chairman SARBANES. I was going to do my round of questioning. But go ahead.

Senator REED. For just one moment. Mr. Secretary, since my colleagues have made eloquent pleas for specific projects that require pragmatic—indeed, inspired—action by the Department, I would be remiss. We have a project in Rhode Island, 430 Section 8 units in Wynsocket and Central Falls that are in a similar category of requiring some support by HUD and a legislative solution. So I would request that you add that to your list as you go back and search your soul and your heart.

Secretary MARTINEZ. Yes, sir.

[Laughter.]

Senator REED. And we are praying together.

Secretary MARTINEZ. The right thing to do.

Senator REED. The right thing to do. And as the Chairman said, the pragmatic thing to do.

Secretary MARTINEZ. Yes, sir.

Senator REED. I am somewhat lighthearted. But it is a very serious issue with us and I appreciate your attention to that.

Chairman SARBANES. The frustrating thing for us is that we are very much aware of how much effort it takes at the local level and, presumably, you are as well, as a former local official, to put together support for addressing blighted housing and, in effect, moving through with a project that provides affordable housing for low-income people.

We recognize the amount of effort that has to go into that on the part of local elected officials, community activists, the tenants, the organizers of the project who have to come up with creative solutions, and so forth and so on.

Now, when that happens and you have a situation in which there is general agreement that housing should be done and you are not encountering the kind of resistance you ordinarily run into, it is extremely frustrating not to be able to move forward with that. Now, clearly, the one thing that has emerged out of this hearing, it seems to me, is that we need to have more hearings.

[Laughter.]

Secretary MARTINEZ. I am really delighted to hear that.

[Laughter.]

Chairman SARBANES. I think it is very clear to me, we have given you a year down there to get your sea legs and everything. But it is very clear to me that we need to really have a more intense kind of exchange, and to do some of it right out on the public record. To the extent that these involve important principles, we need to lay them out and examine them very carefully.

Secretary MARTINEZ. It does not make me happy to be the stubborn bureaucracy standing in the way of progress, particularly for local communities. That is not what I came here to try to do.

Chairman SARBANES. Well, if there are statutes or rules that frustrate it, then we ought to examine them and see what can be done about them.

Secretary MARTINEZ. I think it is just going to require a basic difference in how we have approached the whole issue of Section 8 restructuring. And if we want to do that, we should go about doing it with open eyes of what we are doing and knowing that there will be other projects similar to this that are going to come up, and that this is not without a cost implication from what I am being told.

So I do not want to be the fly in the ointment here on something that makes a lot of sense to see happen. So I look forward to working with the Senators on this. Bureaucracies are stubborn things.

Chairman SARBANES. Section 8 reserves are critical in ensuring that the public housing authorities can serve families under Section 8 when costs unexpectedly rise because of increased utilities or a jump in the number of large families served.

At the Administration's request, Congress cut these reserves in half in the fiscal year 2002 appropriations bill. Report language was included by the appropriators directing HUD to ensure that utilization does not decrease as a result of this cut, and in fact, Congress directed HUD to ensure that PHA's have the funds to administer all Section 8 contracts in a normal manner, including vouchers that turn over during the year.

Now I understand that HUD has unfortunately sent out letters to PHA's directing them to stop reissuing turn-over rental certificates. Now this would seem to be in direct conflict with the intention of the Congress as spelled out in the conference report and will result in a cut in the number of families being served. Were you aware, Mr. Secretary, that these letters were being sent out?

Secretary MARTINEZ. No, sir, I was not. In fact, what I have been reassured time and again and in preparation for this hearing was that the reduction of the reserves from 2 months to 1 month was not going to have a problem, was not going to present a problem, and that 1 month's reserve was really going to be sufficient.

In addition to that, I am told that we also have recaptured funds from other funds that can be utilized for this purpose and that at no time would there be a situation where a Section 8 tenant would not have their voucher honored because of this 1 month's reserve.

Chairman SARBANES. Well, am I mistaken in the understanding I have that HUD has sent out letters to PHA's directing them to stop reissuing turn-over rental certificates?

Secretary MARTINEZ. I see a lot of faces drawing a blank behind me and I certainly was unaware of that. So I do not believe that

has occurred. But I certainly will look into it, Senator, and will try to get back to you today with an answer to that because I have been assured and reassured now for close to a year that this was without consequence, an accounting adjustment.

Chairman SARBANES. Well, such letters have been made available to us from housing authorities. I am holding one in my hand.

Secretary MARTINEZ. I wish to communicate on that.

Chairman SARBANES. I will defer identifying the housing authority because I am sure they would be concerned about it. But we can engage in a discussion about this.

Secretary MARTINEZ. Well, we are not the Taliban at HUD. I am happy to know who they are and try to solve their problem.

[Laughter.]

Chairman SARBANES. Well, the letter says, amongst other things, your housing authority is instructed to stop reissuing turn-over rental certificates.

Secretary MARTINEZ. There is some misunderstanding there. But I will certainly look into it and we will get with your staff.

Chairman SARBANES. I am glad I asked the question and perhaps we can clear that matter up. Let me proceed to my next subject. OMHAR has restructured about 1,200 deals. This means that the properties have been put on a sound financial and physical foundation so that they can continue to serve low-income families. In all, we have preserved about 75,000 units of affordable housing, at the same time generating savings to the Government.

In a June 19 hearing before the Senate Subcommittee on Housing and Transportation, FHA Chairman Weicher committed to retaining OMHAR staff and to providing the resources necessary to keep the program moving forward. Now we were interested in this because the GAO had surveyed OMHAR and come to the conclusion that it had a good, competent staff, that it was up and running finally after an initial period of getting its feet under it, and that it ought to continue forward.

Now we are receiving reports that OMHAR has lost some key staff, that they have not been allowed to replace them, that there was a period in which projects coming into the office were not assigned for restructuring. We have asked the GAO now to look into this matter. But we hear that the program is grinding to a halt.

Now we supported HUD in the effort to shift the administrative location of OMHAR in the Department. But now we are getting these reports that it is really impeding or undercutting OMHAR's ability to carry out its substantive responsibilities.

Secretary MARTINEZ. Senator, I think that there may be some people that are disgruntled about the transfer and the situation that is occurring and you may be hearing from them, to be quite candid. However, I do not believe that OMHAR is in crisis. I do not think that the restructurings are grinding to a halt.

There have been some people who have left, I am told. There were some consultants who were there, including highly paid consultants, and some have left.

But we understand the importance of OMHAR and the restructuring. We know that 1,200 is about 50 percent of what we have to get done in the restructuring of OMHAR. So we are very committed to keeping this going forward and intend to do all we can

to see that the transition is as positive as it can be and continues to get the work done in a timely fashion. I do not think we need to start over because it did take a long time to get geared up.

Chairman SARBANES. Yes. We do not want to knock it down. Well, we have asked the GAO to come in and look at it.

Secretary MARTINEZ. And that is fine.

Chairman SARBANES. And so, we will have the benefit of their inquiry into the matter. But I would be less than fair to you if I did not alert you to our concern about this matter and about the reports that we are receiving and the importance of carrying through with this program. The mark-to-market program was a very important initiative on the part of the Congress and the Administration. We want it carried through.

I see there is a vote on. Let me move through here very quickly.

Secretary MARTINEZ. Senator, may I, before I forget, because I wanted to do it while Senator Allard was still here. But I just wanted to mention that John Carson will be leaving these surroundings to join us as our District Coordinator for Colorado and that area. We are just so delighted that he is joining us. And I just wanted to thank the Senate for letting us have such a well-trained, dedicated servant.

Chairman SARBANES. We have some very able people up here. We are pleased at any time to have the Department draw on their talents. You have one of them sitting right behind you who is handling your legislative matters, and that is why they have been going so smoothly up here.

[Laughter.]

Secretary MARTINEZ. That is what she tells me.

[Laughter.]

Chairman SARBANES. I want to address the public housing issue, capital funds. I am trying to find out the unexpended capital funds that are beyond the legal timeframes. We want data on what amount of unexpended funds are not spent within the statutory timeframes.

We asked for that data. What we got was the amount of unexpended funds. We did not get the figures on the amount of unexpended funds that are beyond the statutory timeframes. So I want to repeat the request for that information.

Secretary MARTINEZ. We will get that to you, Senator.

Chairman SARBANES. In other words, we want to know the ones that are untimely, that have not been dealt with within the required timeframes. We do not think there is much of a problem in that regard.

Secretary MARTINEZ. We have that information and we can get it to you.

Chairman SARBANES. You do have it?

Secretary MARTINEZ. I do not think we have it here with us. We have that available to us and we will get it to you.

Chairman SARBANES. Well, all right.

Secretary MARTINEZ. That information is available and it will be made available to you, Senator.

Chairman SARBANES. The GAO said that cutting the $700 million from the capital fund—and of course, the Congress has put most of that back in, as you are aware, in the budget—without con-

sidering the status of each housing agency's unexpended capital funds, may have the unintended consequence of penalizing housing agencies that have few or no unexpended balances because they spent their funds in a timely manner.

And GAO thinks it is necessary to look at this housing authority by housing authority, which I think is important. When you responded on the policing thing, I thought to myself, well, we need to differentiate between those who are doing the job well and those who are not.

Secretary MARTINEZ. That is right.

Chairman SARBANES. And not have a blanket response which ends up harming those that are doing a good job.

We had very interesting testimony from Kurt Creager, the Executive Director of the Vancouver, Washington Housing Authority, in the hearing we held 2 weeks ago. Actually, I commend that testimony to you. I do not know if you have had an opportunity to review it or look at it. But if not, I do not want to burden your Christmas season, but I do think it would be of benefit to take a look at that testimony. I think we had some very good witnesses and they obviously gave a great deal of time and effort in putting it together.

Secretary MARTINEZ. I have seen summaries of it, Senator.

Chairman SARBANES. Yes. He is retaining capital funds in order to accumulate enough to complete certain capital projects. This is the whole problem of the backlog and so forth.

Now when we did the statutory revisions with Senator Mack, we instituted a timeframe and said, all right, if you are outside of that timeframe, your money is going to get recaptured. But if you are within that timeframe—it is a 4 year period to expend—you can accumulate in order to save for a project.

Now Mr. Creager had a project, for instance, to retrofit buildings to make them safe in the event of an earthquake. And by retaining the capital funds and doing the project all at once, they can save significant monies on administrative costs, contracting, and so on.

Secretary MARTINEZ. Yes, sir.

Chairman SARBANES. So we think that this accumulation of capital funds within the time period is a very important management technique, and we invite you to address that issue. What is HUD's position on supportive services in senior citizen housing?

Secretary MARTINEZ. Well, I think it is obvious that senior housing is one of those areas where supportive services are very helpful and 202 housing typically provides services. I think it is a rather important part of the provision of service to seniors—I mean of housing to seniors.

So as I look to the future, I think it is one of the areas in which we need to probably work on, is to try to find ways that as our aging population, more active people, living longer, that we really need to address how we provide for senior housing in more updated ways than what we have perhaps in the past.

Chairman SARBANES. Do you see it as a legitimate charge to the HUD budget to address the supportive services for senior citizen housing?

Secretary MARTINEZ. I think they go together pretty much and I think that—yes. I think what we should do is to find a way of

cooperating in the way that it is done. But if this has some relationship to the homeless situation, Senator, I want to assure you that I am not after trying to do less for homeless people. What I am trying to do is to make sure that we get the kind of help in providing services to the homeless that other departments ought to be providing, so that we do not encumber our programs with services beyond what our ability is.

In other words, we have finite funds. I want our funds to do the best we can for housing. I do not know if your question was merging the two, but I am answering on both.

Chairman SARBANES. It is a parallel track.

Secretary MARTINEZ. It is a parallel track.

Chairman SARBANES. Yes.

Secretary MARTINEZ. So my point on that is that, in the elderly situation, I think there is a much closer nexus to the need for services merging into the whole project because it has to do with accommodations for handicapped issues and medical facilities and things like that.

In terms of the homeless population, what I am trying to do, Senator, is to try to bring back a closer partnership that I think existed in the past and that has gone away, while at the same time, the HUD budget has been burdened with having to provide services at the expense of housing. And so, I am trying to bring us into better balance by holding other departments' feet to the fire.

Chairman SARBANES. If we provide the housing without the services, it does not seem to work very well.

Secretary MARTINEZ. And that is not the point. The services need to be there. The question is—and I want to invite your help—to make sure that we are getting the help so that our housing budget does not get eaten up providing services that others ought to be providing. You see, when someone is homeless, that does not mean that they are not entitled to Medicare, for instance. They are not entitled to other supportive services for drug addiction that may be available in the community through HHS dollars.

Chairman SARBANES. Yes.

Secretary MARTINEZ. All of these things are available in a way that should cover everyone. VA veterans sometimes have available benefits in other places as well. We have been meeting with HHS and have been making good progress in trying to find a better way of coordinating their provision of services with our housing dollars.

Chairman SARBANES. Well, it is an issue that we will have to pursue, obviously.

I am going to go and vote. Have you voted, Chuck?

Senator SCHUMER. I have. I just voted.

Chairman SARBANES. Well, I will turn the meeting over to you.

Senator SCHUMER. Thank you, Mr. Chairman.

Chairman SARBANES. And we will conclude, unless there are others who have arrived who also wish to question. You can adjourn the meeting.

Senator SCHUMER. Thank you.

Chairman SARBANES. Mr. Secretary, we very much appreciate your coming today.

Secretary MARTINEZ. Thank you.

Chairman SARBANES. And we look forward to seeing you again.

Secretary MARTINEZ. I am sure we will, and I look forward to it. Thank you.

Chairman SARBANES. Thank you very much.

Secretary MARTINEZ. I appreciate your courtesy, as always.

STATEMENT OF SENAOTR CHARLES E. SCHUMER

Senator SCHUMER [presiding]. Thank you. And I want to thank the Chairman and you, Mr. Secretary, for your courtesy. So many things are going on at this close of session, that it is hard to get balance here. I appreciate your waiting for the last member to ask some questions.

I would like to thank you for HUD's contribution to the Federal response to September 11, and particularly for the CDBG funding that will be a necessity in rebuilding lower Manhattan.

As you probably know, FEMA gives our Government aid when they need the help—the overtime for the police and fire, the rebuilding of the subways.

But we have so many other needs—the small businesses, the large businesses, the nonprofits, the hospitals. And the CDBG grant, which you have supported, and the Administration supported, will be very helpful to us. I do want to have, after this is over, a little discussion with you about some of the specifics. But it is just great for us.

What I would like to do today, though, is discuss with you a real problem we are facing in western New York. It may seem that Buffalo is apart from the September 11 crisis. But it is not. And the reason is simple.

Like other places in America, but perhaps more so, their economy has been faltering rather dramatically. A number of jobs and everything else. Buffalo is way behind most of the middle west. So it has always been a problem area for the State. Now in the past, the State would help Buffalo, probably to a greater percentage at least than it helped any other area, by giving State aid.

September 11 has made State aid extremely difficult. It has made it difficult because the State—Governor Pataki estimates that the State will lose $9 billion in revenue this coming year. It so happens that New York State will lose more revenue than the city because of September 11 because the city's revenue is basically property tax-based and sales tax-based. But the State revenue, which is based on an income tax, is very hard hit when Wall Street has—when you lose 100,000 jobs, many of them the highest-paying jobs on Wall Street. When the firms on Wall Street decide to cut back on their bonuses, which is often 25 to 50 percent of the pay, and then the State income tax loses its slice. And the percentage of revenues to the State government that come from this is enormous.

As a result, the State has had to cut back on aid to Buffalo. The school system is in real trouble. We have worked hard to try and get some money out of the education budget for the school system. But the city government is in trouble and there is talk of bankruptcy. There is talk of a control board and all sorts of things.

What that means is—it is a ripple effect. Since the City of Buffalo has to tend to the basic needs of fire, police, and education, it cannot do the kinds of economic development things that are need-

ed to try and get Buffalo going again to dig itself out of this hole. And so, that is why I am coming to you for real help.

Buffalo has applied for a renewal community designation. I realize that there are a small number of these in the country. But if ever a place needed it, it is Buffalo–Lackawanna, which is a city right south of Buffalo, right where the old Bethlehem Steel mills—if you go there, you will see the old steel mills, empty and shut down. The application is strong. It has the full support of the Congressional delegation and the Governor of New York. And it meets every one of the renewal community criteria—poverty, unem-ployment, below-average income—as required by the application process.

Just let me give you one statistic, Mr. Secretary. Over the past decade, the Buffalo–Niagara standard metropolitan statistical area lost more jobs and a greater percentage of its population than any other urban area in the entire United States.

So, we are trying to do our part. They have lowered taxes. They have made some capital investments. And Erie County, the county in which Buffalo is, has begun the consolidation of services to save taxpayer money. There is a private organization, the Buffalo–Niagara Enterprise Organization, they have raised $25 million just to promote new business activity in Buffalo.

The bottom line is all of western New York and virtually our entire State is focused on saving the economy of metropolitan Buffalo. And given September 11, the kinds of money that had been planned by the Governor and the State legislature to go there for economic development is not likely to come. It makes this renewal community designation virtually vital.

If we get it, I am certain that with the talent and the energy—it has a great labor force, productive people, people who used to be making $20 an hour are now making $6 or $7. They do not leave because they love the area.

But we really need the help. And I think we can turn Buffalo with this designation into a national success story. So I am just hoping that you, as you review the finalists for the renewal community designation, give Buffalo–Lackawanna fair consideration.

Secretary MARTINEZ. Thank you, Senator. I assure you that it will receive fair consideration.

You make a compelling case. I want you to understand that this is a competition and various communities, all with compelling stories, I might say, compete against one another. And it is not a subjective thing that we can just go say, well, this happened in New York. Let us pick that one out. So it is a process. The process is ongoing, so I cannot at this point comment.

But I appreciate your point of view and you can be assured that, as we have responded to September 11 at HUD, and I mentioned during my opening remarks some of the other things that we have done and I want to just comment on those for you because I want you to know how very committed the Administration and our Department has been to the New York situation.

We immediately acted with FHA lenders to ensure that there would be no foreclosures for any of the victims and things like that. We also acted obviously in the CDBG. But we have also done what-

ever it took regulatorily to help with Section 8 and public housing for the public housing of New York.

I have been there now on three occasions, I believe, and I will be there again next week, where I am happy to tell you that we are coming very close to a point of closure on the 203(k) problem, which has been pending for some time and the number of restructured housing projects that were abused some time back.

So, anyway, with that, I just assure you of every fair consideration and certainly New York is in all of our hearts and minds and we will do everything we can to be helpful.

Senator SCHUMER. Thank you, Mr. Secretary. I have two more quick questions and then I will let you go. You have been here a long time.

As you know, I have been interested in the problems of predatory lending. I know from your previous testimony, you are as well. I have seen it first-hand. It is the number-one reason that thousands of people in my State and America who have just worked for the American way. They have saved their $25 a month until they have enough for a downpayment and then they are just robbed by these rip-off artists. So I am just interested in knowing what steps HUD has taken or intends to take to deal with the pervasiveness of predatory lending in New York and around the country and how we can work together to eradicate this.

Secretary MARTINEZ. Senator, we have been taking a very aggressive approach to predatory lending. We have been working in Baltimore specifically with the issues of predatory lending there. We have been working with a task force that the City of Baltimore has put together, and the successes there are successes that we can replicate around the country.

I want to assure you that we are very focused on this and we are learning a great deal about how to, as we devote resources specifically to this problem, what results it can have. And we have seen 40 indictments, 27 successful prosecutions, 66 debarments.

This is just in Baltimore. So it is had great results. And that is a model that we can hopefully replicate elsewhere. In addition to that, RESPA reform.

Senator SCHUMER. Right.

Secretary MARTINEZ. I think when we give consumers more information, when they know, and there is more transparency what the transaction is about, they will have a better chance to avoid the dangers of predatory lending. But we are continuing to work on it. Our task force is ongoing, and I look forward to working with you on the New York issue.

Senator SCHUMER. I think RESPA is important as well. One of the things that I have found as I studied predatory lending is that, because so much of it occurs from these little lenders—you do not have the larger institutions being involved in this because they are checked and regulated. But we do not have enough enforcement.

I do not know if we need new laws, but we need enforcement of some of these little mortgage lenders and mortgage brokers because they come in and they just rip people off. I hope that is some place that you will look at.

Secretary MARTINEZ. Absolutely. Yes, sir.

Senator SCHUMER. Enforcement of the smaller lenders, who seem to do most of the predatory lending.

Secretary MARTINEZ. I share your concern and I understand the problem the same as you do in that sense. I agree.

Senator SCHUMER. One final question. This is Federalization of New York City's housing units.

You know we have the problem in New York City. Half, 44 percent of our renters cannot afford the local fair market rent and 12 percent of all working families in New York live in what has been determined to be severely or moderately inadequate housing.

Nearly a million people, about 850,000, live in what HUD describes as substandard or inadequate housing. These are disturbing statistics even in the bumper years that our city has had. And of course, now we do not have those.

One of the few places that has helped us, we have a great Federal housing program. Unlike other places, we do not have to go around blowing them up, et cetera. We have been more mindful of keeping a mix in the housing, having working class as well as very poor people. I had to make that fight along with some others, including Congressman Lazio over in the House when I was there.

We have had very good management and it has worked pretty well. But, again, because of the new concerns, we would like to see continued the federalization of these, which helps us financially.

We had a conversation in June, I believe, where we had discussed the importance of federalizing an additional 7,000 State housing units in New York and Massachusetts. You mentioned you were going to make that happen, which I appreciate. Can you tell me the status of the federalization? Have the units been federalized? If not, when should they be? That is my last question.

Secretary MARTINEZ. Okay. And Senator, it is one that I would prefer to get back to you with a thoughtful response.

Senator SCHUMER. Yes, sir. Great.

Secretary MARTINEZ. Because at the moment, I have a note here. But I would be afraid to try to tell you what the note said because I might say it wrong.

Senator SCHUMER. Okay.

Secretary MARTINEZ. So if you will allow me a chance to get back to you in a more thoughtful response, I would be happy to do that.

Senator SCHUMER. Fine. Great. Well, I very much appreciate it.

With your permission, sir, the record will remain open for 1 week so that people can ask questions in writing. I might have some, and my colleagues may. And with that, we thank you for your testimony, for your diligence, and for your waiting around for the last stragglers to wander in.

Secretary MARTINEZ. Thank you.

Senator SCHUMER. Thanks. The hearing is adjourned.

[Whereupon, at 12:15 p.m., the hearing was adjourned.]

[Prepared statements supplied for the record follow:]

PREPARED STATEMENT OF SENATOR PAUL S. SARBANES

Good morning and welcome to the Committee's second hearing on Housing and Community Development Needs in the United States. I want to welcome the Secretary and extend to him the Committee's appreciation for appearing before us.

Two weeks ago, we heard from a number of experts about the growing affordable housing crisis in America. Today, we want to get the Administration's perspective on this problem. As my colleagues know, the President is in the midst of putting together its budget proposal for fiscal year 2003. Because that process has not yet been completed, the Secretary cannot talk about budget levels for specific programs at HUD, nor can he talk about new programs that might be proposed. However, we have asked him to discuss what he sees as the Nation's pressing needs in the area of housing and community development, particularly as the country enters its first recession in about a decade.

First, I would like to talk about some good news. After stagnating and even falling in the 1980's, the homeownership rate rose to historic levels in the 1990's, particularly after 1995. Improvements in minority homeownership drove much of this improvement. In fact 40 percent of all new homeowners from 1994 to 1999 were minorities, even though minorities make up only 24 percent of the population. African-American and Hispanic homeownership rates grew twice as fast as the white homeownership rate.

In spite of this progress, there continues to be a significant gap in homeownership between white and minority Americans. Closing this gap is a priority of the Secretary, and I want to be as helpful as I can in that effort. To that end, I am particularly concerned about the so-called "clarification" on the issue of yield spread premiums put out by the Secretary in October. I plan to hold a hearing on this topic early next year, and I do not want to divert us to this issue this morning. Let me just say, however, that HUD's "clarification" will lead to increased costs to low-income, minority, and middle class homebuyers by opening the door to mortgage brokers to steer those borrowers into higher interest rate loans without their knowledge, and without any reasonable recourse. I am particularly disturbed that Assistant Secretary Weicher recently said that HUD was compelled to issue the statement because of the decision in the Culpepper case. In that case, the Court found that brokers collected thousands of dollars in unnecessary out of pocket fees from FHA borrowers in addition to steering them to higher interest rate loans in exchange for a yield spread premium paid by the lender. FHA is designed to be a tool to increase homeownership, not a cover to strip owners' equity. As the Court recognized in Culpepper, yield spread premiums do have a legitimate role in the marketplace as a way of reducing closing costs, if the borrower chooses to pay certain costs and fees through a higher interest rate. The Committee will keep a close watch on the rulemaking that I understand HUD is undertaking, with the goal of ensuring that it really is helpful to homeowners and homebuyers.

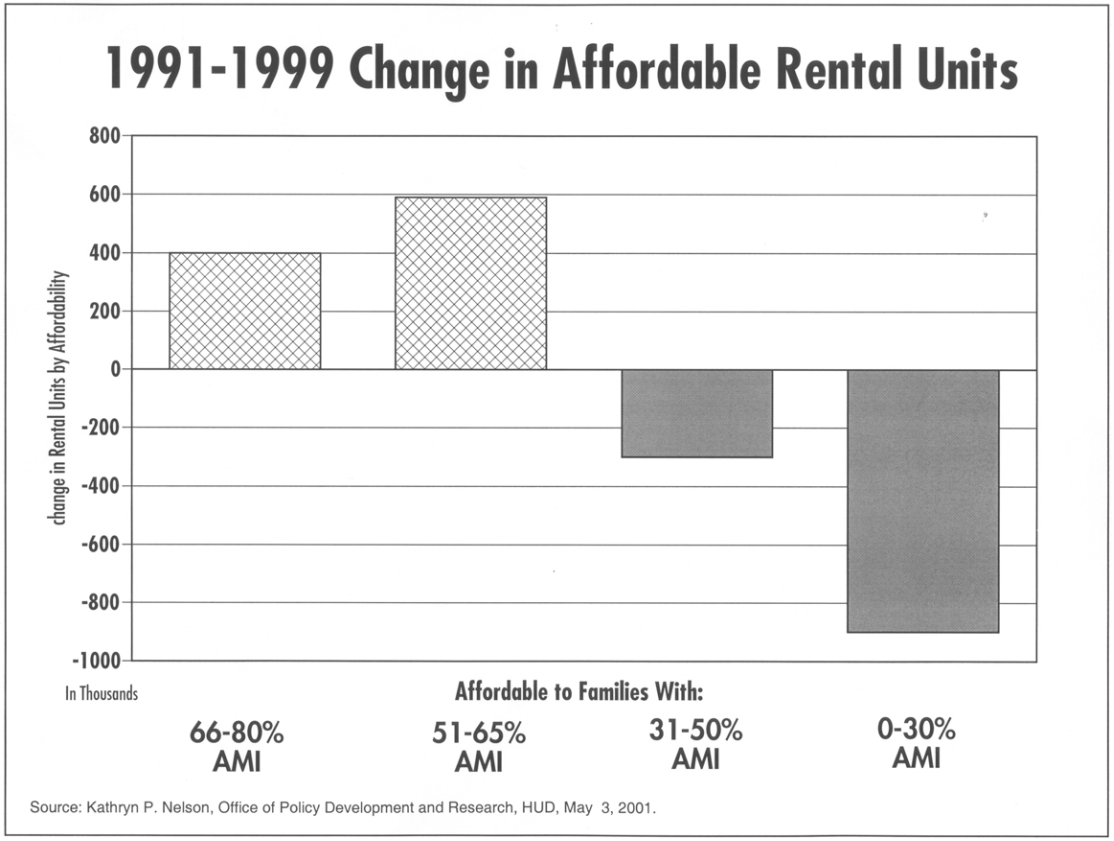
While there has been general progress on homeownership, the shortage of affordable rental housing is a serious problem that appears to be getting worse. HUD's own data show that nearly 5 million very low-income American families pay over half of their income in rent, or live in severely substandard housing.

A study by the National Housing Conference that looks at a broader sample, found that nearly 14 million families, including working families, face this same, critical problem. In fact, while the number of worst case needs among poor families actually stabilized a bit, the number of working families carrying this severe burden has risen dramatically.

As the chart of the United States shows, there are 33 States in which two full-time minimum wage earners in a family is not sufficient to rent a modest apartment paying 30 percent of a family's income—the general measure of affordability. These trends are not surprising. Again, referring to the chart on "Change In Affordable Rental Units," we see that in the past decade, the number of units available to extremely low-income renters has dropped by almost a million units, a loss of 14 percent. Nationally, apartment vacancy rates have declined by 1.7 percentage points, making it more difficult for all renters to find an affordable place to live. As the third chart indicates, many metropolitan areas have significant percentages of families who live with the insecurity of knowing that an unexpected medical bill, a car repair, or a bout of unemployment can lead to a cycle of eviction and homelessness.

The children in these families will not be able to receive an adequate education. Their parents will not be able to take full advantage of job training offered to them, or other important services, until they have the kind of stability that affordable housing in a safe neighborhood can bring. In my view, housing is a first step to bringing many poor families and their children to economic self-sufficiency.

I very much look forward to getting the Secretary's views on these issues.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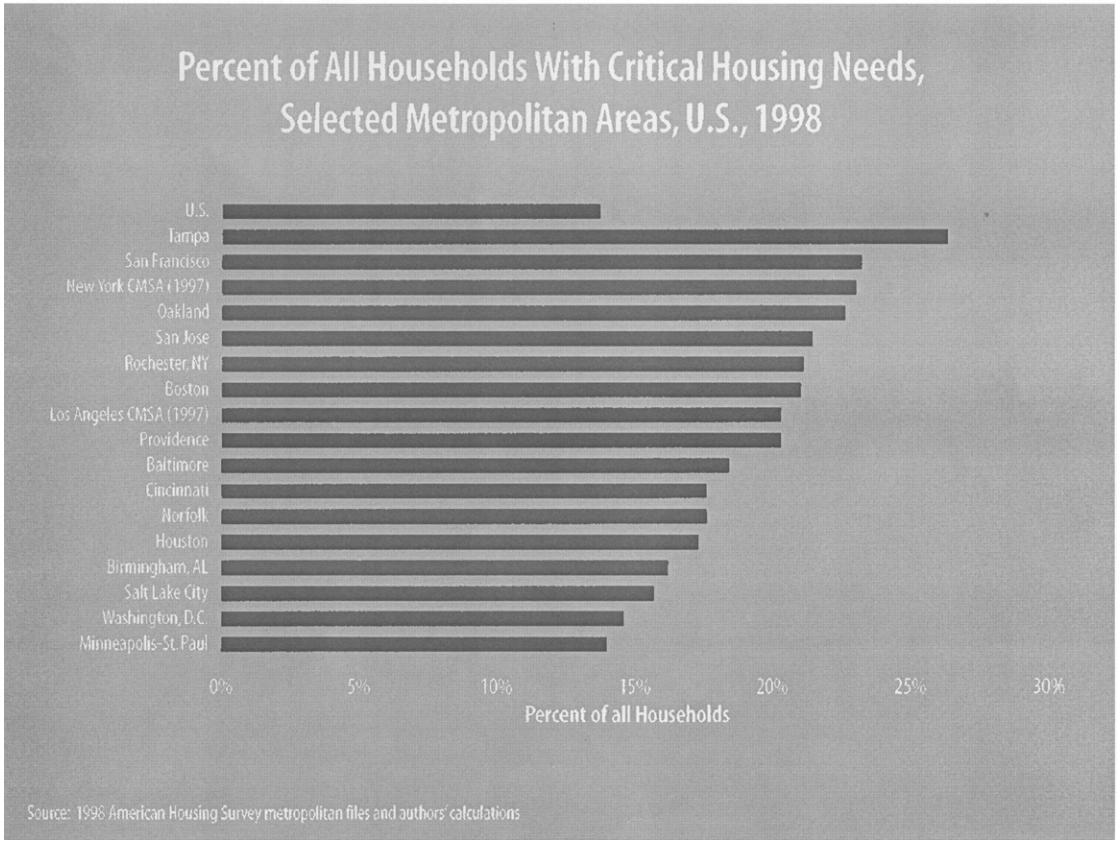
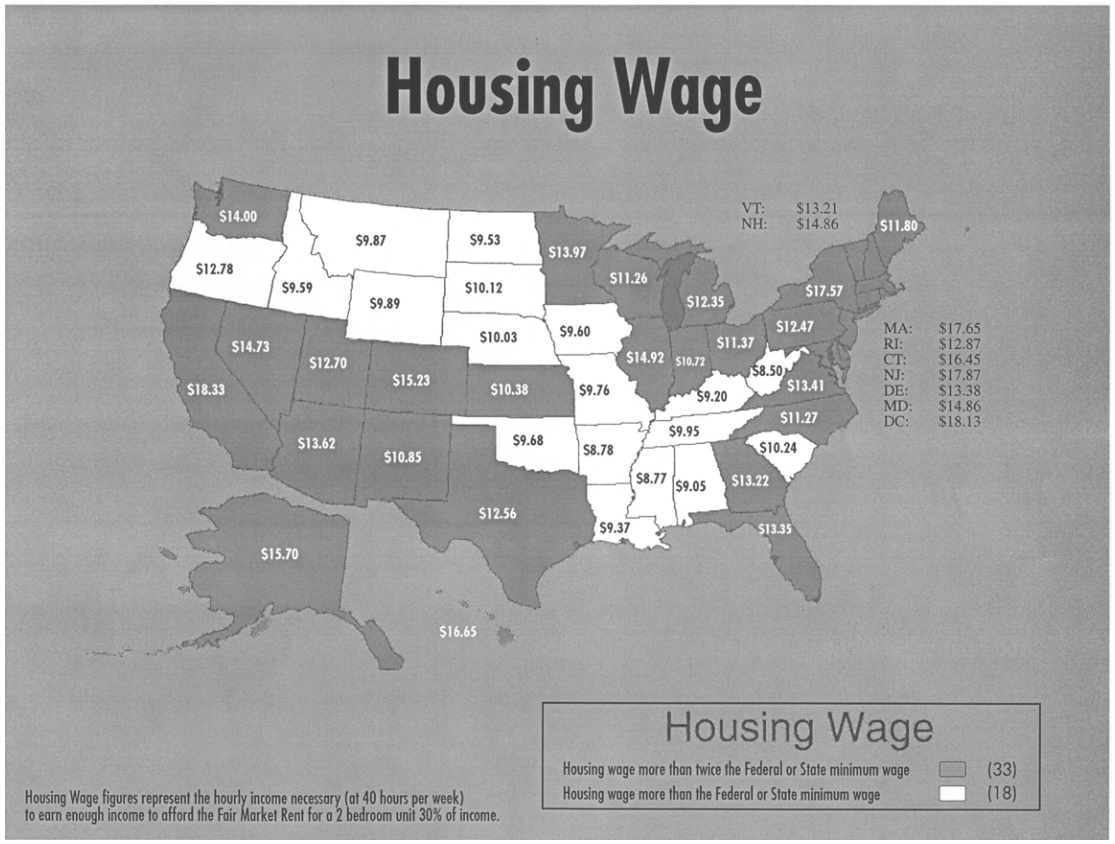
In Thousands
Affordable to Families With:
66-80% AMI
51-65% AMI
31-50% AMI
0-30% AMI
Source: Kathryn P. Nelson, Office of Policy Development and Research, HUD, May 3, 2001.


Percent of All Households With Critical Housing Needs,
Selected Metropolitan Areas, U.S., 1998
U.S.
Tampa
San Francisco
New York CMSA (1997)
Oakland
San Jose
Rochester, NY
Boston
Los Angeles CMSA (1997)
Providence
Baltimore
Cincinnati
Norfolk
Houston
Birmingham, AL
Salt Lake City
Washington, D.C.
Minneapolis-St. Paul
0%
5%
10%
15%
20%
25%
30%
Percent of all Households
Source: 1998 American Housing Survey metropolitan files and authors' calculations


Housing Wage
$14.00
$12.78
$9.87
$9.59
$9.53
$9.89
$10.12
$10.03
$13.97
$11.26
$12.35
$9.60
$14.73
$12.70
$15.23
$10.38
$14.92
$10.72
$11.37
$12.47
$17.57
$11.80
$18.33
$9.76
$8.50
$13.41
$9.20
$11.27
$9.95
$13.62
$10.85
$9.68
$8.78
$10.24
$8.77
$9.05
$13.22
$12.56
$9.37
$13.35
$15.70
$16.65
VT: $13.21
NH: $14.86
MA: $17.65
RI: $12.87
CT: $16.45
NJ: $17.87
DE: $13.38
MD: $14.86
DC: $18.13
Housing Wage
Housing wage more than twice the Federal or State minimum wage (33)
Housing wage more than the Federal or State minimum wage (18)
Housing Wage figures represent the hourly income necessary (at 40 hours per week)
to earn enough income to afford the Fair Market Rent for a 2 bedroom unit 30% of income.

PREPARED STATEMENT OF SENATOR DEBBIE STABENOW

Thank you, Mr. Chairman. I appreciate that you have called this second hearing looking at the housing and community development needs that we will need to address in the upcoming HUD budget. And, I am glad that the Secretary was able to join us today for this hearing.

There is no question that we face a critical housing shortage in this country and Congress is going to need to work on this problem. In Michigan, a person must make $12.35 an hour to afford a 2 bedroom unit at Fair Market Rent, using 30 percent of his or her income for housing expenses. This is almost two and a half times the minimum wage. And it is not just in Michigan; I know this problem is serious nationwide, particularly throughout the Midwest, Northeast, and West Coast.

Furthermore, in the midst of a recession, and with mixed signals about when we will see an economic recovery, there is going to be an even greater demand for HUD's services. This coming year therefore should be a time for a renewed commitment to address our national housing problem.

Mr. Secretary, when you appeared before this Committee in April, I expressed my disappointment in the White House's proposed HUD budget. As the Chairman and others have pointed out, there were serious accounting questions such as how yet unexpended but already obligated funds were treated. And, equally alarming, the White House budget proposal consolidated funding in ways that forced already underfunded programs to compete against each other.

I know my friend, Senator Jon Corzine, has raised this issue as have Senator Sarbanes and others, but I also need to highlight my profound disappointment that the Public Housing Drug Elimination Program earmark was eliminated. In light of this I think we would all greatly benefit, if HUD would clearly articulate to us, as the fiscal year 2003 appropriations process moves forward, what its comprehensive drug prevention strategy in public housing is going to be.

Mr. Secretary, I understand that you are in a difficult position. The Government through a mix of previous policy decisions as well as the current economic climate has dwindling resources available to it. This is going to cause the President and you to make some tough choices. So, let me be clear and reiterate what I said at our November 29 hearing on this same topic: I want to work with the Administration and my colleagues to ensure that we pass and enact a strong fiscal year 2003 HUD budget.

If we fail to do so, it will be terribly shortsighted. The fact that we are not investing in capital repairs and other key programs will only make matters worse. It is a vicious cycle, costing us substantially more in the long run.

Finally, Mr. Secretary, while you are before us today, let me also say that I hope you will work closely with me and other Members of this Committee as you proceed on a number of new initiatives. Only by working together, across party lines and through open engaged discussions between the Administration and Congress, will we be able to enhance consumer protections, stop predatory lending, bring clarity to Congressional intent on previously passed housing legislation, and reform key components of the home buying process.

Again, thank you, Chairman Sarbanes for calling this hearing and for your unrelenting commitment to addressing our Nation's housing needs.

PREPARED STATEMENT OF MEL MARTINEZ

SECRETARY, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

DECEMBER 13, 2001

Chairman Sarbanes, Ranking Member Gramm, and distinguished Members of the Committee, thank you for the invitation to testify before you this morning. I appreciate this opportunity to address the many ways in which the Department of Housing and Urban Development (HUD) is working to meet the Nation's housing and community development needs.

Mr. Chairman, I would like to begin by thanking you and the Members of this Committee for the advice and expertise you provided this year as I settled into town and took on this tremendous challenge. The Committee has shown me great respect, which I appreciate, and we have developed a very positive working relationship.

Let me also thank you for your cooperation in confirming HUD's Presidential nominees. I consider myself fortunate to be surrounded by colleagues who bring great expertise to the job from both the public and private sectors, and have a rich diversity of background and experience. With your continued assistance, we hope to have our entire management team in place in the near future.

Our job is made easier through the support of a President who is firmly committed to HUD's mission of public service. President Bush is an active advocate for our work at HUD. He speaks passionately about the dreams a family can achieve through homeownership. He has joined me on two occasions to stress the point by building homes with Habitat for Humanity . . . and wants to triple the funding for the HUD program that supports the good work of similar organizations.

President Bush has directed this Department to serve Americans in need not simply by raising their quality of life to some minimum standard, but by fueling their hopes and dreams to achieve the life they always imagined. Despite the success of welfare reform, too many families still live below the poverty line. As a catalyst in our communities, HUD is putting its resources to work empowering citizens to lift themselves out of poverty and into prosperity. We have touched many lives this year . . . in many different ways.

The Department reacted quickly and sympathetically following the tragic events in September. I immediately required lenders to provide relief on FHA-insured mortgages for families of the victims, and urged conventional lenders to do the same. They responded, and we have protected these families from losing their homes. A short time later, Secretary Rumsfeld and I also announced a mortgage rate cut for National Guardsmen and Reservists called to active duty. HUD is providing an additional $700 million in Community Development Block Grant funds to help stimulate New York City's economic recovery. We also allowed waivers of regulatory provisions for the HOME, Section 8, and public housing programs.

Immediately after being sworn in, I took steps to steer HUD's focus back to its core mission: helping families find affordable and decent housing. This means ensuring housing opportunities for those who rent either out of necessity or by choice. And it means creating new opportunities for homeownership, so that more families can achieve what is envied around the world as the American Dream.

The Census Bureau reported in October that the homeownership rate reached an all-time high of 68.1 percent. Historically, homeownership rates for minority groups have been lower than the rest of the population. Minority homeownership stands at 49.2 percent and while this is a record high and positive news, we must continue to do better in closing the gap.

We have begun to create new opportunities for homeownership, so that more families can achieve what is envied around the world as the American Dream. This year, HUD reached out to the thousands of low-income families who find the road to homeownership blocked by high downpayments, and proposed the President's American Dream Downpayment Fund. We also put forward the new Federal Housing Administration (FHA) hybrid adjustable rate mortgage, which promotes homeownership by reducing initial homebuying costs. Congress recently provided funds subject to authorization for the first of these, and authorized the second, for which you have my thanks.

If we are to further expand the ranks of America's homeowners, we must address the challenge of making the homebuying experience less complicated, the paperwork demands less time-consuming, and the mortgage process itself less expensive.

To ensure that homebuyers have the information they need in order to make an informed purchase, I have undertaken comprehensive reform of the Real Estate Settlement Procedures Act (RESPA). In addition to preserving yield spread premiums as a valuable tool for opening the doors of homeownership, reform will: (1) ensure better protections for new homebuyers and those who refinance; (2) offer clarity for the mortgage lending industry about their disclosure responsibilities, and; (3) provide an additional tool to fight predatory lending.

The need for RESPA reform is even more urgent during times of economic uncertainty. Homeownership helps create financial stability for families, and in return brings economic stability to our communities.

Homeownership is an important goal, but is obviously not an option for everyone. I appreciate the need to expand the availability of affordable rental housing, and ensure quality and options for residents. The just-enacted 25 percent increase in the limits for FHA multifamily insurance will help to spur the construction and rehabilitation of affordable rental housing. I am awaiting the recommendations of the Millennial Housing Commission, as we look to ways to address affordable housing needs. I will continue to urge the industry, and the Government-Sponsored Enterprises in particular, to do much more in the area of affordable housing production.

But let me say that I look forward to the day when we measure compassion not by the number of families living in assisted housing, but the number of families who have moved into a home of their own.

Predatory lending and property flipping are abusive practices that continue to plague homebuyers in cities across the country. Senator Sarbanes, the Administration is particularly concerned about the situation in Baltimore. Since April, our

Housing Fraud Initiative has resulted in 40 indictments, 6 Federal arrests, 2 State arrests, 27 successful prosecutions, and 66 debarments. We have provided relocation assistance to 46 families. We also worked with you, Mr. Chairman, to develop the Credit Watch legislation that was included in the fiscal year 2002 budget.

I am pleased with these accomplishments, but we know there is more work to be done. HUD remains committed to addressing the problems in Baltimore, and we feel confident that the lessons we learn there will be beneficial to the rest of the country. HUD looks forward to joining with the Treasury Department in its efforts to encourage the development of national best practices to address predatory lending.

Exposure to lead-based paint is a serious concern that many low-income citizens deal with on a daily basis. Every American child deserves the opportunity to grow up in a healthy home, safe from the debilitating and often irreversible effects of lead exposure. Because the most common source of exposure is lead paint in older housing, HUD has a critical role in protecting our children. HUD awarded more than $67 million in grants nationwide in October to protect children from lead-based paint, with a focus on eliminating lead hazards in low-income housing.

At HUD, we are working to ease the daily struggles of those who live in the most difficult circumstances. Certainly, this includes the residents of the colonias. Earlier this year, I traveled to the colonias—the communities along the Mexico border steeped in poverty—to see the difficult living conditions for myself. HUD has stepped in to offer assistance, through grants that will bring water and sewer hookups, and a Colonias Task Force I established to ensure that HUD programs make an impact in the colonias.

In January, President Bush directed HUD to assist in his Faith-Based and Community Initiatives. We have studied the barriers that prevent grassroots social service providers from reaching out in partnership with the Federal Government to Americans in need. HUD has prepared a report examining what the Department can do through regulatory and management improvements to "level the playing field" and encourage greater acts of charity in our communities, while preserving Constitutional safeguards.

I urge the Senate to take up the President's Faith-Based legislation before Congress adjourns. This legislation is critical to helping HUD expand its partnerships with groups working to meet the housing needs of low-income Americans, the elderly, disabled citizens, and those living with HIV/AIDS.

HUD has a special duty to the Nation's vulnerable populations, and this includes those who have no place to call home. Last month, we announced the awarding of more than $1 billion to organizations serving homeless Americans—the largest homeless assistance in history. To streamline and focus the response of the many Federal agencies involved in delivering homeless services, the Interagency Council on the Homeless is being reactivated.

In addition, the Administration remains committed to expanding housing opportunities for people with disabilities. For example, a voluntary compliance agreement, signed recently with the District of Columbia Housing Authority, will provide more than 500 fully accessible public-housing units to disabled residents. HUD continues to strive to ensure equal housing opportunities for all.

Mr. Chairman, Committee Members warned me during the confirmation process that HUD was plagued by mismanagement on many levels. I understood that meeting the needs of the American people meant improving HUD's management, and I assured you that I was prepared to take on this challenge. In the past 11 months, HUD has significantly streamlined its management structure to improve the quality and delivery of services, and restore the agency's credibility in the eyes of Congress and the American public.

I set a goal that HUD address audit findings made by the Inspector General in a timely manner and make corrections that actually fix serious management problems. As a telling sign that we are committed to doing better, HUD completed the 6 month period ending September 30 with no overdue management decisions on any of the Inspector General's 363 audit recommendations. This is only the second time that HUD has met the goal of no overdue decisions in all the years that the OIG has been reporting audit resolution activity to the Congress. Our goal is to deliver the best possible services to those in need, and we have moved aggressively to ensure that HUD programs are getting the job done.

With the support of the National Education Association, the American Federation of Teachers, and the Fraternal Order of Police, I suspended HUD's Officer Next Door and Teacher Next Door programs in April. This came after officials handed down indictments and felony convictions against buyers who purchased their homes fraudulently. We put into place aggressive monitoring and tightened controls to prevent homebuyer fraud, and restarted the programs in August.

Working with Congress, we terminated HUD's drug elimination program this year. This was a well-intentioned program that suffered from a large number of abuses, and duplicated the work of other Cabinet Departments. Despite the termination of this program, HUD's commitment to ensuring safe and drug-free homes for America's families has not wavered. In fact, to partially offset the elimination of this program, the President's fiscal year 2002 budget proposed, and the Congress appropriated, an enhancement for the Public Housing Operating Subsidies, which local officials may use at their discretion, including for activities formerly supported by the drug elimination program. I will work with the Office of National Drug Control Policy (ONDCP) to determine how best to capture and account for Departmental funds used for drug control activities. In addition, I am working with ONDCP, the Department of Justice, and other agencies in exploring ways to effectively meet this commitment.

Until this year, HUD's credit subsidy—which is used to cover expected losses on FHA multifamily loans—was fraught with uncertainty due to regular appropriations shortfalls. The Department restructured the program to make it more self-sufficient and less dependent on taxpayer dollars. Since the restructuring became effective on October 1, 2001, HUD has issued firm commitments totaling $869 million for more than 10,000 housing units.

I am proud of the strides we have made in identifying the programs that are meeting the needs of the people . . . and identifying—and fixing—those that are not. HUD is quickly becoming a more efficient, more effective provider of the services no agency but ours can deliver.

Mr. Chairman, I will conclude my formal testimony so that I may dedicate as much of our remaining time as possible to answering questions from the Committee. As I indicated to you in our last conversation, HUD's ongoing negotiations with the White House regarding the fiscal year 2003 budget preclude me from addressing—in anything more than general terms—budget initiatives we may be considering.

In closing, we all understand that housing is a nonpartisan issue—one that crosses the lines of politics and party. The families who come to us for help are not interested in our political affiliations, and our success in serving them depends on cooperation. I am happy to say that this is the spirit in which HUD and the Committee have undertaken our work this year . . . and the same spirit that will guide us tomorrow and into the future. I would like to thank each of you for your personal support of my efforts, and I welcome your guidance as we continue our work together on behalf of the American people.

Thank you.