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LEGISLATIVE OPTIONS FOR PRESERVING FEDERALLY- AND STATE-ASSISTED AFFORDABLE HOUSING AND PREVENTING DISPLACEMENT OF LOW-INCOME, ELDERLY, AND DISABLED TENANTS

HEARING

BEFORE THE

COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

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LEGISLATIVE OPTIONS FOR PRESERVING FEDERALLY- AND STATE-ASSISTED AFFORDABLE HOUSING AND PREVENTING DISPLACEMENT OF LOW-INCOME, ELDERLY, AND DISABLED TENANTS

Thursday, June 25, 2009

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

The committee met, pursuant to notice, at 10:04 a.m., in room 2128, Rayburn House Office Building, Hon. Barney Frank [chairman of the committee] presiding.

Members present: Representatives Frank, Waters, Moore of Kansas, McCarthy of New York, Baca, Scott, Green, Cleaver, Ellison, Donnelly, Carson, Driehaus, Himes; Castle, Biggert, Miller of California, Capito, Neugebauer, McCotter, Posey, Jenkins, and Paulsen.

The CHAIRMAN. The hearing will come to order.

We have before us again the Secretary of the Department of Housing and Urban Development, Shaun Donovan. And we are here on a very important issue: preservation.

Forty years ago and more, the Federal Government began, I guess back in the 1960's—the first project I was aware of was built in Boston in 1965, the Castle Square project.

By the way, I do want to make a note as to the Castle Square project. It was a 221(d)(3), later replaced by 236. It was affordable housing, subsidized housing for lower-income people, and in the middle of it is a public housing unit. It is family, limited-income, low-income housing, with public housing in the middle.

We often hear the argument that housing like that pikes a neighborhood. I invite people to Boston. No, not my district, Mr. Capuano's district. He will welcome you. Go to the intersection of Tremont and Arlington Streets, right where there is an entrance to the Massachusetts Turnpike. On the southwest corner, you will see the Castle Square project, a project more than 40 years old for low-income people, one of the first racially integrated, the beginning of the south end of Boston, with a public housing project in the middle.

To the argument that this pikes neighborhoods, then walk across Tremont Street. Now, admittedly, Tremont Street is a wide street;

it has a divider in the middle. But it is still only one street. On the northwest corner—this is the southwest corner—sits a building known as L'Atelier—L, apostrophe, A–T–E–L–I–E–R, for our very good stenographer. It is as expensive as any housing in the State of Massachusetts. It is a luxurious building with concierge service that I think costs more per month than the rent for one of the buildings across the street.

People who tell me that affordable housing pikes the neighborhood, I need them to go and see an affordable housing project literally across the street from some of the most expensive housing in Massachusetts. And when you are among the most expensive housing in Massachusetts, you are right up there with the rest of the country.

We built these units years ago. They were built with a proviso that allowed the owners who got no-interest loans in most cases from the Federal Government—first, 1 percent, I think, and then no-interest loans—after 40 years to terminate the restrictions and to make them market-rate.

Now, at the time, it may have been thought that, well, nobody is going to want to live in these poor people's houses. But it is another refutation of the argument that this sort of housing pikes neighborhoods. Many of the kind of people in the socioeconomic category who objected when this housing was first built near them, their descendants now want to move in. It turned out to be quite desirable, in many parts of the country, with a new move towards living in the cities.

We, thus, have the problem that market-rate forces threaten to take away these units. Now, we have had a policy under the previous Administration, the previous Congress, of providing vouchers—"enhanced vouchers," they were called, because the rents at market would go up—to keep the current tenants in the building, but when those tenants died or moved, we lost the unit. That has led to a diminution in the number of units set aside for affordable housing.

We cannot compel people who have a contractual right to withdraw from this program not to withdraw; they have that contractual right. But most of the people, virtually all of them who built that housing were people who believed in this sort of housing. People who bought it from others were people who believed in this sort of housing. With the appropriate set of incentives, we can keep almost all of these units in the affordable inventory.

And, while the Section 8 Voucher Program is a good one, when the Federal Government simply adds to the demand for housing with annual vouchers and does nothing to increase the supply, good conservative economics tell us we force up prices. So an annual voucher program should be part of an overall program that includes units. We hope, through the Low-Income Housing Trust Fund, to be able to build some more units, but, at the very least, we can prevent the loss of those we have.

So we are working on legislation—and, by the way, this is both an urban and a rural matter. There is housing built in rural areas, and members should remember that we have jurisdiction in this committee over the Rural Housing Service at the Agriculture Department, which has been very well run. And the Administrator,

Mr. Davis, in the previous Administration, was very cooperative. We have had a lot of good work there. A former member of this committee, Geoff Davis from Kentucky, a Republican, and Lincoln Davis from Tennessee, a Democrat, both former Members, worked hard to preserve it.

It is our intention to bring forward legislation that will do everything we can legally to preserve these units. It is, by far, the least expensive way to have a unit. It avoids the problem of where do you locate it, since they are already located. And it avoids the disruption; we have these communities that are now here.

So that is the goal of today's hearing, to focus on this legislation, which I hope we will be passing through. And our goal is—and it is very appropriate to have the Secretary here because he did so much work in the jurisdiction where they supplemented the Federal efforts. My own State did; many other States did.

We believe that the legislation should apply not simply to those that were federally funded but to any such program. Whether it was federally, State, or locally funded, we believe that advancing the funds and creating a legal framework where we can preserve these units is the best thing we can do to keep the affordable housing inventory from shrinking even as we go forward in trying to build it.

So today's hearing is very much on this piece of legislation.

The gentlewoman from West Virginia.

Mrs. CAPITO. Thank you, Mr. Chairman.

And I would like to thank the Secretary for returning before our committee.

I think we all share the Secretary's desire not only to promote homeownership but also to ensure that Americans have access to affordable rental housing.

This legislation before us today includes many sections that I strongly support. Title 8 of the draft legislation is especially important to my home State of West Virginia, as it makes important improvements to affordable housing in rural communities. As the chairman mentioned, our colleagues, Representative Davis of Tennessee and Representative Davis of Kentucky, are to be commended for their efforts on this legislation.

I am also pleased that the section of this legislation modernizing the Section 202 program providing affordable housing for the elderly includes important language that I was able to include in our last Congress. This section addresses a problem facing smaller, rural States in that currently their allocation of 202 units is split between metropolitan and non-metropolitan areas, often leaving the States not being able to develop their full allocation because a developer cannot afford or they cannot find a developer to build with the small non-metropolitan allocation. The new language in this legislation will provide smaller States with the critical flexibility that we ask for, so that we can use those allocations as they are most needed.

While I do support these sections of the bill, I do have some significant reservations about their inclusion in the larger package. Both the rural and senior housing sections have broad, bipartisan support and, I believe, should be moved separately, to enhance the

possibility that they will be accepted by both the House and the Senate.

The majority of this legislation addresses preservation of affordable housing in urban areas. It is much more complex and contains some controversy. This may discourage, I believe, some future private sector participation in Federal housing programs and ultimately limit the availability of affordable housing. I think the legislation does carry a significant cost, and there are some new sections that could open up some extensive litigation areas.

I know that extensive work has been done on this draft legislation. I commend the chairman for this, and I look forward to working with him and the Secretary on many of these provisions.

I yield back.

The CHAIRMAN. The gentleman from Texas, Mr. Green, is recognized for 3 minutes.

Mr. GREEN. Thank you, Mr. Chairman.

And I thank the Secretary for appearing today. It is good to see you again, Mr. Secretary.

Mr. Chairman, my intelligence indicates to me that more than 900,000 Section 8 units will expire over the next 5 years. These units are of critical importance. At a time when we have high foreclosure rates, at a time when we have tight lending policies, at a time when it is difficult for persons to maintain homes and we may have more persons who are going to need affordable housing, I think it is exceedingly important that we maintain these 900,000 units.

The empirical evidence seems to indicate that there is a dire need for much more affordable housing in this country. So I look forward to hearing from the Secretary in terms of how we will maintain and also move forward with the acquisition of additional affordable units.

I would also mention that, in my City, we have many persons who find themselves living at a place called "home" that is beneath an overpass or that is an abandoned piece of property. The numbers are very difficult to get a handle on, but I contend that if we have one, we have too many. Too many people are finding themselves calling "home" under bridges.

I think that we must do what we can to make sure that we continue to separate the United States of America from many other places in the world where we just allow people to suffer in the streets of life when we can provide opportunities for them. I think we have a duty to do this.

And I am looking forward to hearing the testimony. I thank you for being here, Mr. Secretary.

And thank you, Mr. Chairman. I will yield back the balance of my time.

The CHAIRMAN. Are there any further requests for opening statements?

If not, we will now go to Secretary Donovan, whose presence we once again appreciate.

Mr. Secretary?

STATEMENT OF THE HONORABLE SHAUN DONOVAN, SECRETARY, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Secretary DONOVAN. Thank you, Chairman Frank, Ranking Member Bachus, and Ranking Member Capito for your attention to these very, very important issues.

And Chairman Frank, I want to say, in particular, I have been to that intersection that you talked about on Tremont Street. And I was surprised, myself, to learn that it was affordable housing when I first saw it because it has been so well-maintained, it has been so successful.

The CHAIRMAN. You know, it is 44 years old.

Secretary DONOVAN. I would also venture to say that, given your encyclopedic knowledge of these programs, it is quite possible that you have visited every street corner where assisted housing exists in this country today. And I want to acknowledge—

The CHAIRMAN. I was going to say, Mr. Secretary, that I hope that you were properly respectful of that development since, at 45 years old, I believe it is your elder.

Secretary DONOVAN. As usual, you are correct.

I do want to acknowledge that you have been a champion and advocate of preservation of HUD-assisted housing for a very long time. And I won't put you on the spot about your age here in this hearing, but, without your efforts—

The CHAIRMAN. I am 1 week younger than the Speaker. So push it if you want to.

Secretary DONOVAN. But, without your efforts, many more families would be without affordable shelter.

I am looking forward to working with you and the committee to further the preservation agenda and I would also like to welcome the chairwoman here, as well, Congresswoman Waters. It is good to see you, as well, and for your tireless advocacy on these issues, as well.

This is an important hearing. Today, HUD provides rental assistance for over 1.4 million assisted units across the country. And this stock is a critical resource for countless families serving the low- and very-low-income families who otherwise would not have access to decent, safe, affordable housing.

We know from experience that preserving affordable housing is essential. If the current economic crisis has taught us anything, it is that it is long past time that we have a balanced, comprehensive national housing policy, one that supports homeownership but also provides affordable rental opportunities and ensures nobody falls through the cracks.

Today, there are less than three units available for every four low-income households and only half the number of units needed for families in extreme poverty. As we watch the number of homeless families with children begin to rise, we remember that a significant factor contributing to the resurgence of homelessness in the early 1980's was the failure to preserve hundreds of thousands of units from an earlier generation of affordable housing. And so we can't afford not to take on this challenge.

And Congress and HUD, together, are already doing just that. This Administration, thanks to congressional support, is committed

to fully funding project-based Section 8 contracts for 12 months through the Recovery Act, as well as full funding in HUD's 2010 budget.

Our budget also requests a higher level of Federal funding for housing vouchers, the most direct means to meeting the affordable challenge facing very-low-income renters and the most efficient means of addressing the increase in homelessness I just referred to.

While we have made progress, more action is needed, which is why I am pleased to inform the committee that HUD supports the fundamental principles of the draft bill. The bill tackles a detailed list of actions that could be taken on this front. And this legislation provides us with the foundation to move forward in a comprehensive and strategic manner.

We must still evaluate its costs and implications, but allow me to highlight three important themes embraced in this bill that will be critical in guiding us forward.

First, HUD needs to be a leader and a partner in preserving critical housing resources. Too often, HUD's policies and practices get in the way of preservation efforts instead of supporting them. That is going to change. Going forward, we are adopting a problem-solving ethos and collaborative working relationship with our partners, including owners, residents, and local government.

I recognize that historically this may not always have been the case. The draft bill highlights the kind of practices that we can consider changing that will demonstrate this new partnership. For example, when a property is undertaking substantial capital improvements, we can agree to establish the after-rehab Section 8 rents up front before the rehabilitation begins. That means that owners, lenders, and their financial partners would have the certainty and confidence they need to undertake this new investment and benefit tenants immediately.

Likewise, we can look at agreeing to enter into longer-term Section 8 contracts, subject, of course, to annual appropriations and structured to provide HUD with the flexibility to cancel contracts with owners of nonperforming properties. This would boost tax credit investor confidence by demonstrating our intent to be a long-term partner in the project. This type of action is particularly important at this time when investors are in short supply.

These two examples, among many from the legislation, can be done administratively. We will continue to identify all of the elements in the bill which we might be able to tackle administratively and quickly. And, again, we want to be a leader and a partner in this crucial preservation effort.

The second point I want to talk about is information, which is absolutely critical to this effort. We applaud the concept of a national database that will give us access to the information that we need regarding America's affordable housing stock, including how much is HUD-assisted, what developments have multiple financing sources, and when mortgages are maturing in order for us to better predict our voucher commitments.

Mr. Chairman, I am a numbers guy. I am serious about evidence-based decisionmaking. A comprehensive database would help us do a far better job of preserving as many units as possible for the least amount of money.

This leads me to the final point. One size does not fit all in approaching the challenge of preserving affordable housing. Ranking Member Capito has already talked about the differences facing rural areas and urban areas. And the data and analysis we do on the portfolio of properties will lead us to tailor our efforts to specific problems.

For instance, what is needed for a deeply troubled property in a challenged neighborhood may be very different from what is needed for a well-maintained property in a strong housing market at the end of its mortgage term. A flexible menu of solutions will be required, and it must be based on solid data and analysis.

We want to work with you to ensure that we have the needed flexibility in this legislation. One concept that we are very interested in pursuing is linking the preservation of existing affordable housing developments with broader initiatives that benefit communities. We want to look at prioritizing the preservation of developments that are integral to sustainability, such as those adjacent to significant transportation options or with great access to job opportunities.

My staff, led by my new Deputy Assistant Secretary, Carol Galante, has been working diligently over the past several weeks gathering together owners, tenants, and nonprofit leaders to listen to their thoughts, ideas, and suggestions regarding preservation. Congressional staff has been attending these sessions. And, together, we have been working to better understand the challenges we face and how to craft more workable solutions.

As these conversations progress, there may be further ideas, like the link to sustainability I cited earlier, that we may wish to have considered. These conversations are an important part of our efforts to work with you, as you further refine this bill.

We know how important affordable housing preservation is to the long-term success of our communities, and we recognize that hard choices will need to be made to get the most out of our resources and make a difference for millions of families. We will need to look at the costs and work with you to prioritize what is essential and what is most cost-effective. But with a new set of priorities, a new commitment to collaboration and accountability, and a new way of doing business here at HUD, I am convinced we can and we will.

Thank you.

[The prepared statement of Secretary Donovan can be found on page 38 of the appendix.]

The CHAIRMAN. Thank you, Mr. Secretary.

One point I made mention of before and I would want to make it explicit, and I hope we are in agreement on this, is that we are out there to preserve units rather than to vindicate Federal programs. So I would hope we could get agreement that, whatever tools we offer, whether they are financial or whatever, that we don't discriminate between State and Federal. Particularly a number of jurisdictions—New York City, where you were; Massachusetts, really under the aegis originally of a former Member of this body, Joe Moakley, who began as a State Senator in Massachusetts a very extensive program, in coordination with Mike Dukakis, to do housing.

So would you agree that we could try to make this fully available so that, to the extent that States—it is not coercive—to the extent that States, in the case of New York City, wanted to take advantage of this, that we could accommodate that?

Secretary DONOVAN. I think it is very important.

I also think it is important, as you talked about earlier, that we ensure that there are Federal resources available, that we are also encouraging States and cities to bring their own resources to the table for these efforts, as well. So the Federal Government needs to do its part, but I also think it is important that State and local governments do their part, as well.

The CHAIRMAN. That I agree with.

Part of this—now, this is not our jurisdiction, it may be somewhat controversial, maybe you can't do it—but I am told by many of the owners who have the right to say no to this—we cannot coerce anybody—that exit tax relief is an important part of this.

Now, I know there is some resistance. Basically, what we are talking about with exit tax relief is forgiving some taxes that may be due for owners who agree to do this. I know it is interjurisdictional. We don't have the jurisdiction; Ways and Means does.

But I don't know if you have any thoughts on this. Do you want to just go back and talk to your colleagues at Treasury and elsewhere? We are going to need some guidance, and then, if we decide to do it, some cooperation on the question of exit tax relief.

I don't know if you have any particular thoughts on that.

Secretary DONOVAN. I do think it is an important question. And I have seen very directly from my own experience in the private sector, as well as in the public sector, that the legacy of the accelerated depreciation that was available for these properties has left significant, what we call negative capital accounts that stand in the way of, often, preservation moving forward.

And there has been significant discussion, Senator Schumer and others have drafted bills and introduced bills that would try to target this assistance to properties where they would be preserved long-term.

The CHAIRMAN. One of the things that we might do, the arcana of CBO may not be within our jurisdiction, but OMB you do work with. I would hope that we would, as we cost out exit tax relief, compare it to what the cost of building a new unit would be. I think that would clearly help us.

So we are talking about whether or not we have this unit, and it would seem to me that the cost of exit tax relief, even with everything else, almost certainly is going to be less in many parts of the country, maybe everywhere, than building new units. So I would hope that we could do that kind of accounting.

Secretary DONOVAN. I would also just mention that enhanced vouchers are obviously a cost of that inversion, as well.

The CHAIRMAN. Yes, that is exactly right, because if you go out a few years, enhanced vouchers—in fact, one of the arguments that has been made—and we have debated the voucher program—by some who are critical of it pointed out the increase in the voucher program, people said, "Well, look at what a bigger percentage of HUD's budget the voucher program is." Well, that probably is because people cut the rest of it. So when you are the last man stand-

ing, you are a larger percentage of the group than before. But it is also the case that enhanced vouchers are enhanced, so they cost more money, when over time, you would reduce that rate if you had the unit.

The only thing you said that made me sit up a little bit was when you talked about prioritizing these. I would hope that our goal would be to protect any that people want to protect, you know. And I would hope that we would not be running out of resources.

So when you say prioritize, maybe those are the ones you deal with first. It may be those are the ones—I guess, to some extent, you prioritize because the ones that are in the lousiest areas are the ones least likely to go out of the inventory and go to market.

But would I be correct in saying that our goal is, in fact, to preserve every one that is physically still appropriate and that people are ready to work with us on?

Secretary DONOVAN. Yes, look, I do think—I want to be clear about that statement. First of all, there are situations where a property is in poor enough condition that it is located somewhere where it would be better to think about—similar to what has happened on the HOPE VI side—more fundamental redevelopment rather than preserving property as it is.

So I think there are difficult choices that sometimes need to be made. That is why we have a proposal in our budget that would expand on the work that HOPE VI has done successfully. We have begun discussions with your staff on this to expand to assisted properties, as well.

But, from my own experience—and the first time I was at HUD, we created a program called Mark-Up-To-Market. And what we found as we looked at the data is that the properties that we were losing, not surprisingly, were the properties that were in locations where rents were the highest and where oftentimes the schools were the strongest, the job opportunities were the best—

The CHAIRMAN. In other words, there would be two categories. One is the projects that are just physically not appropriate to keep going. And we would redo them, I would hope, and maybe more than hope, as we get to this legislation, with the support of, I know, my colleague from California, that there will be a pretty heavy burden of proof on people who didn't want to do a one-for-one replacement of units. And we will be talking about that.

But then, also, yes, there are units that are in no danger of wealthier people moving in because they don't want to live there. I mean, let's be honest. So, yes, in those cases, the best economic deal for the owner may be to continue in the program. Because, if I am correct, when there is a 40-year opt-out, does anything prevent the owner from continuing if he or she wants to continue?

Secretary DONOVAN. There are cases where a mortgage matures and there is assistance that is attached to the mortgage that then expires. So we would need to come to the table with the resources to be able—

The CHAIRMAN. Exactly. In those areas where the mortgage has expired but there is no great demand to displace people, then we might very well be willing to consider some 5- or 10-year extension of assistance.

Secretary DONOVAN. Mr. Chairman, I might also add another example of prioritization, and this, again, is from my own experience. There was a wrenching—early in my first time at HUD—decision to be made about a property in Iowa, where it was in poor condition and the standard procedure would have been to provide vouchers there, but it was in a rural area, it was an absolutely critical resource, and, frankly, a voucher would have meant that seniors would have had to move probably 50 miles away—

The CHAIRMAN. Because there was nowhere else to live, yes.

Secretary DONOVAN. —to be able to find an alternative.

And so, that is a case where prioritization of preservation made sense because of the specifics of that situation in a rural area.

The CHAIRMAN. I appreciate that. I am going to turn it over to the gentlewoman from West Virginia, and she correctly pointed out the differences in urban and rural areas. And that is a very important point. Vouchers in some of those rural areas where the only multifamily housing or the only appropriate housing for a limited-income renter is there, that puts a higher priority on that preservation, because a voucher might just be useless.

The gentlewoman from West Virginia?

Mrs. CAPITO. Thank you, Mr. Chairman.

And I want to thank the Secretary, in his opening statements, for recognizing, and in his comments, the need for the flexibility. Because I think that was the aim in my previous aim for the elderly, to give the flexibility in the rural areas. And the example that you cited in Iowa happens all across America. I am sure you are well aware of that.

This kind of bleeds in, my question, one of my questions, into part of what you were talking about with the chairman. During several of our previous hearings in the 110th Congress, witnesses testified, owners of affordable housing, that they are sort of frustrated with HUD's inability to promulgate meaningful regulations and inconsistently applied regulations; and, in some cases, those who are choosing to opt out of the program at their mortgage maturity date, due to basically HUD fatigue.

And I wanted to know, what steps does the Department intend to take—and you sort of mentioned a few of these—to give these owners and their financial partners the certainty and the confidence that they can move forward and see improvements in these areas where they found deficiencies?

Secretary DONOVAN. Well, first of all, I want to acknowledge that I think that is an extremely important point and that, having worked at HUD for many years, the issue of HUD fatigue, not for me personally but—

Mrs. CAPITO. I hope not.

Secretary DONOVAN. —for owners, is a real issue.

I think, first of all, I would say that we have made significant progress in the first few months with the single most difficult issue over the last few years, which has been the problem of very short-term, often 3-month contract extensions that have driven owners, frankly, crazy, and has led to a significant increase at least to threats to opt out and to the kind of HUD fatigue that you are talking about. So that is one example.

I talked about a couple other examples in my testimony where what owners need from HUD is a reliable, predictable partner. So part of this is making sure, whether it is when they are going to do a renovation, that we can in advance of that beginning say, "Well, if you do these certain kinds of work on your property, this is the rent that we would be willing to offer you," so that they can understand whether the transaction will work or not before they embark on the long process of renovation. That is one example, the ability for longer-term contracts.

And, frankly, a broader kind of flexibility and deregulatory approach that I think is very important. This is something that I worked on earlier in my time at HUD, for example, with Mark-Up-To-Market. We often have restrictions on profits or very onerous regulatory restrictions that, frankly, I think are no longer appropriate given the advances that we have made in the way that our subsidy programs work.

So I think there is a broader agenda that we have begun to take on, but that this bill would help to further in many ways, and that there are also many things we can do administratively, as well.

Mrs. CAPITO. Okay.

I wanted to touch on another topic. You mentioned in your comments that you reached the critical decision—or will be reaching the critical decision with some of these properties—of whether it is better to move forward with preservation or whether it is better to demolish and start over or look at other options because of the age of the property.

And my understanding, in this bill there is no green element or green building—we just went through Mr. Perlmutter's bill; we had a couple of hearings on that. And I think this is a philosophy that is going to become a larger part of our building, both public and private.

What kind of vision do you have for that in housing preservation? Is it something you have thought of, or are there discussions going forward?

Secretary DONOVAN. I am very glad you raised that point because I think it is important.

First of all, we have an enormous opportunity, with the recovery bill, to green this stock very broadly. There was $250 million available in the recovery bill for the assisted housing stock. We already have 400 applications for that $250 million, so we are vastly oversubscribed for the funding that we have.

We have taken steps, working with the Department of Energy, to allow multifamily properties across the country to be automatically eligible for weatherization funds. Previously, you literally had to go tenant by tenant to qualify buildings even though the Federal Government already knows the incomes of those tenants through whether it is the Section 8 Program or—so I signed an MOU with Secretary Chu to make all of those properties automatically eligible. And there is $5 billion of weatherization funds. We have been working with States to make sure that money can be available to green this stock.

Fundamentally, the principle here is that this is an enormous opportunity, as we preserve properties, when renovation gets done, not just to improve the living conditions of those residents but to

save taxpayers and residents money by doing the commonsense things that will pay for themselves through lower utility bills over time.

So we have done an extensive amount of outreach and effort. And I think that is exactly the kind of thing, as I talked about further refinements to the bill and the conversations we are now having with congressional staff, this is a perfect opportunity to think about this bill as an opportunity for that kind of that work.

Including, not just at the building level, but also from the community level. As I said, to look to prioritize properties that are already sustainable in the sense that they have low transportation costs, they are accessible to transit, or in rural areas to other kinds of options for seniors, etc., that would allow them to have a better quality of life and lower expenses on transportation.

Mrs. CAPITO. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

The CHAIRMAN. The gentlewoman from California?

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

Mr. Secretary, it is good to see you again. I appreciate all of the work that you are doing, And I appreciate your challenges. But we are very inspired by your energy and your concern and your experience.

I have two things I would like to just mention before I ask the question that I prepared for you.

One is that we have been working all evening to try and get $50 million to $100 million for retrofitting for public housing in the American Clean Energy and Security Act. And as I talked with my staff, in addition to this and the work we are doing with Mr. Perlmutter for a grant program, we think perhaps you ought to have your own green bill. So I would like to talk with you and, of course, our chairman about that at some point.

The other thing is I am really concerned about these housing authorities that are running out of Section 8 money. We have been visited by people from New Jersey, and I think the latest one was Oregon, where the vouchers are no good. I am worried about people becoming homeless.

Are you aware of this, and what are you doing about it?

Secretary DONOVAN. I am glad you raised that, Madam Chairwoman. This is an issue that we are looking at carefully. My Assistant Secretary for Public Housing just joined us this week on the job. This is the first thing I put on her agenda to look at. We are just getting fuller first-quarter data from across the country, from every one of our housing authorities. And we are looking at this issue today.

What we have seen, from the preliminary analysis of that, is that voucher utilization stayed roughly constant in the first quarter. So it doesn't appear that there has been a significant decline over the first few months of the year. But we have heard the same concerns that you have in particular areas.

We do have some funding that is available for emergency situations that we can look at. But I also want to make sure that we can come back to you and report that we have adequate funding overall for the year and that we can take care of these situations.

And I would expect within the next couple of weeks to be able to report back to you on that.

Ms. WATERS. Thank you very much.

And congratulations on Ms. Mercedes Marquez. You stole her from us in Los Angeles, but that is all right. It was a good steal. And not only can she help Los Angeles, she can help everybody in the country.

Secretary DONOVAN. Well, she has made it through the committee. I am hopeful that she will be on the job shortly if the Senate does vote to confirm her.

Ms. WATERS. Thank you very much.

Now, as I see it, in your written testimony, you did not address the issue of national right of first purchase. Section 103 of the draft being prepared by the committee includes language that would provide opportunities for owners of affordable housing to sell the property to nonprofits who would commit to affordability. Such a provision would have been helpful to tenants who were fighting for the preservation of Starrett City, where I first met you, when I had the hearing up there.

What is HUD's position on the right of first purchase?

Secretary DONOVAN. I want to say two things about this.

I have—and it is interesting you mentioned Starrett City. We had a very extensive process in New York City, when I was there, to attempt to establish a right of first purchase. And I think it is instructive for what is in this bill.

First of all, the legal issues around this are very complex. There are both constitutional issues and often State-level issues in terms of modification or contravening existing contracts. And I think it is very, very important that, as this bill is considered, those issues be looked into very carefully.

What happened in New York was that, frankly, my agency and I personally warned the city council that we thought the direction that we were going would have serious legal issues. And, in fact, they passed the bill, and there was a lawsuit, and there were 2 years of confusion that followed and, frankly, disruption in preservation, followed by a court decision that struck down the original bill.

And so I think it is very important that the committee look seriously at the legal issues surrounding this type of provision. So that is the first thing.

The second thing I would say is that, from my experience, having completed more than a dozen tenant-sponsored purchases of these kinds of properties in New York and being a strong supporter of tenant involvement, is that, frankly, I don't feel that this is the most important tool in terms of allowing tenants to be successful in ensuring their properties are preserved.

From my experience, even where there is a right of purchase, the most significant barriers to successful preservation are information, which I think this bill would go a long way to providing. I think that is an important thing, making sure residents have information and are armed with knowing what is going on through early notices.

Second of all, that oftentimes technical assistance in understanding the financial challenges; and then, third, the funding re-

sources to be actually able to preserve a property are the critical ingredients.

And I think those carrots, if you will, are the more important place to focus rather than the sticks. Because I think I do have concerns, as I said originally, that there are some significant legal issues with this that could end up, frankly, standing in the way of preservation if it is not crafted very, very carefully.

Ms. WATERS. Thank you very much. And being that preservation is a top priority of the chairman, I think we would benefit from his experience and help in getting it done and doing it right.

Thank you very much.

The CHAIRMAN. I completely agree.

The gentleman from Texas, Mr. Neugebauer?

Mr. NEUGEBAUER. Thank you, Mr. Chairman.

Mr. Secretary, congratulations. And I am down here at the end.

You know, one of the things—I like some of the things you are saying, and one of the things that I hear you say is you are a numbers man, and I am too. I am in business, so you have to be a numbers person if you are going to survive. But sometimes people just look at a certain set of numbers and don't look at the big picture.

And I think, in this preservation issue, we have to be very careful about that, because sometimes somebody says, well, we can rehab these units for "X" and then—opposed to, you know, if we build new units or have other options that we look at. In many cases, for example, that may not be the most cost-effective option, because, in some cases, the condition of that property, while you may rehab it some, it may continue to be outdated as far as from a maintenance and energy efficiency standpoint and those kinds of things.

But one of the things we experienced—we went down to New Orleans, for example. And we talk about tenant involvement, and we talk about looking at the numbers to rehab. And one of the things we found was that we went down there to a unit that had been rehabbed and an extraordinary amount of money was spent on that property but, in the end, nobody wanted to live there. And they spent money on a monthly basis maintaining those units, to keep them fresh. They had to run air conditioners to keep out mildew. And the opposition to that was that the tenants group were given a voice there, and they said, "No, we want to keep what we have, so we want you to rehab this unit."

The alternative was there were people who were willing to come in and do a mixed-use project there, blending low-income, and moderate-income, but people resisted that.

So I think what we have to be very careful here, as we go down the road, I hear people who want to move to tenant-owned and nonprofit-owned, but, quite honestly, we are dealing with limited resources at the Federal level. Now, we need everybody's capital at the table. In many cases, as you know, some of the nonprofits don't have a lot of capital, and so that puts a lot more pressure on the Federal Government to provide more of the assistance. In Texas, for example, we have done a lot of tax credit projects there, and they have worked out very effectively.

So what I would hope is that, as we move down the road—and if you are, indeed, a numbers person—that, when you begin to look

at that, we look at all of the conditions affecting housing. I have been in the housing business for nearly 40 years, and cost is just one of the variables. We have to look at all of the variables.

But this concern I have is, if we start sending a signal that, one, we are going to mitigate the rights of owners, they are not going to want to continue in these types of projects. And, two, we are going to send the signal to people thinking about being our partners in the private sector, "You have to beware because your rights get mitigated."

Can you kind of help me with your philosophy on that?

Secretary DONOVAN. Well, having worked, as I said earlier, in the private sector, as well as a lender, also a developer, as well as in the public sector, I do think it is important, first of all, to recognize that we have made enormous progress in our housing policy by developing strong public-private partnerships.

And I do feel strongly that there is a balance that needs to be struck between incentives—we talked earlier about, sort of, the heavy hand of regulation that HUD has often had and that we need to look at ways to make dealing with HUD and participating in these programs simpler and more like the private sector.

Having said that, I would also add that I do think, in general, having looked pretty carefully at the numbers, that—and I acknowledged earlier that there are cases where preservation doesn't make sense because of the extent of the rehab costs or other situations—in general, preservation is a more cost-effective approach, when you consider all the long-term costs, than losing that housing as affordable housing and having no other alternatives, particularly because, for this stock that we are talking about, enhanced vouchers are the alternative, and they can often be significantly more expensive than the property as it is today.

So while I agree with you that we need to look at the cases very specifically, broadly speaking, preservation has shown to be a more cost-effective approach than either the enhanced vouchers or the new construction.

Mr. NEUGEBAUER. One of the questions that is a follow-up to that, sometimes, though, those locations are not conducive for just whatever reason: the neighborhood has changed, the demographics have changed. And there seems to be this resistance that, if we have to build better housing in a different location, that somehow we are harming the residents there.

You know, I think at some point in time we have to say, you know, well, sometimes it is time to move on, and that strangling us to a specific location sometimes is not in the best interest. And so I think the question is, would you be willing to, at some point in time, say, you know, it is just in our best interest here to move on?

Secretary DONOVAN. Well, in fact, in our budget proposal this year, we have proposed that this form of housing that we are talking about, assisted housing, be eligible for the kind of assistance that HOPE VI has provided to redevelop in situations where creating mixed-income and, frankly, paying attention to broader issues around school reform, making sure that we have what I would call a sustainable community there, is very important.

So I would agree that there are absolutely situations where assisted housing needs more than just, you know, a $20,000 renovation to be long-term successful.

Ms. WATERS. [presiding] Mr. Watt?

Mr. WATT. Thank you, Madam Chairwoman.

And welcome, Mr. Secretary.

I am about to violate a cardinal rule that I have, which is asking a question about something that I haven't fully researched myself and fully understand. But we have you here as a captive audience, and I just got the letter from my local Winston-Salem Housing Authority describing a problem that they are having. I haven't had a chance to really digest it, but I am hoping that you can help me solve the problem, if not today, at least allow me to describe it as best I can.

The summary I have just is an e-mail from one of my staff people who is working on this. It says, "Based on the Winston-Salem Housing Authority's current housing assistant payment expenses to landlords and the enormous reduction in calendar year 2009 housing assistance payment funding, as evidenced in the funding letter from HUD, we anticipate having a $3.5 million shortfall by December 31, 2009. We are taking all appropriate measures to reduce our spending, but most will not result in an immediate reduction. Therefore, we anticipate being out of funds by August or having to terminate 1,000 to 1,200 low-income voucher participants in August for the rest of the year."

As I understand it, this came about as a result of the way expenses were being reported. HUD divided the reporting fields into two separate ways of reporting, and some housing authorities that tried to adopt this new process of reporting overstated in one category and understated in another category. The total amount would have been the same as if they had reported them all together. But then HUD decided it would use only one of the categories, the one that they understated, to base their numbers on.

Now, I may be off in the way I have described this, so let me shut up, and maybe you can help me understand what the problem is and whether there is some way that we may be able to fix this so that we don't—I mean, the bottom line is we can't afford to have a bunch of people not have vouchers, especially in Winston-Salem, North Carolina, which has been hit very hard by the loss of banking and the loss of textiles and has a severe spike in unemployment and has increased demand for these vouchers.

Secretary DONOVAN. Yes. First of all, I would say, my staff is here. I would love to get the letter and the information from you immediately after the hearing so that we could look at the details of that.

What I can say broadly is that—and we talked a little bit about this earlier with the chairwoman. We have a couple issues that happened this year in the omnibus appropriations bill for the voucher program.

First of all, there was a $750 million rescission taken from the reserve balances of housing authorities around the country. Those reserves had sort of acted as a buffer against the kind of situations that you are talking about.

Second of all, because the bill was passed so far into the fiscal year, it has allowed housing authorities very little planning time compared to a typical year to be able to manage to their budgets.

So I do have a particular concern. And, as I mentioned earlier, as my new Assistant Secretary for Public Housing started this week, this is the very first issue I asked her to take a look at, to make sure we understand exactly where the numbers are.

We do have some funds that housing authorities could come in and apply for. We are also looking at whether there are other measures we might take for specific housing authorities that are in the kind of situations that you are talking about. So we should follow up and look at that.

I would agree, we don't want to lose anywhere in the country 1,000 or 1,200 vouchers.

Mr. WATT. I am told that this may be a problem that transcends just Winston-Salem. And, unfortunately, I was trying to read and understand it. I heard you talking about this with Chairwoman Waters, but I didn't realize that you were talking about the exact same issue that I was trying to read rapidly and understand.

So, if I can just have your commitment to try to work with us to solve this problem, that would be wonderful.

Secretary DONOVAN. Absolutely.

Mr. WATT. Thank you, Madam Chairwoman.

Ms. WATERS. Thank you very much.

Mr. Castle?

Mr. CASTLE. Thank you, Madam Chairwoman.

This question is going to be very general, I am sure, Mr. Secretary, but can you tell us how today's economy is impacting all these programs that you are dealing with?

And by that I assume that the demand for this housing has increased as a result of the economic problems that we have. I assume that the cities and the States who have helped support some of these programs are probably not contributing as they have before. And I am not sure what is happening with respect to the conversion to private sales and that kind of thing.

But I would have to assume that if the economy was as it was 2 years ago, things would be different than they are today. And I wonder if you can give us any input on that from your point of view.

Secretary DONOVAN. I would say two things.

First of all, the importance of this housing has been magnified by the current economic crisis. In general, assisted housing serves not just low-income but extremely-low-income families. On average, we are talking about incomes below the poverty line, in most cases, for residents of assisted housing where there is deeper subsidy, like project-based Section 8. We are also talking about housing in the case of many of the mortgage programs, where it makes housing available to families who are in the range of up to 80 percent of median income. So it is both extremely-low-income as well as low- and to some degree, moderate-income families who have been affected, obviously, or have these units available, and the economic crisis has hit those families particularly hard.

The other thing I think that would maybe be a less obvious impact but that also makes this bill particularly important at this

moment is that what we had seen over the last few years was an asset bubble not just in single-family housing, not just in a whole set of other kinds of investments, but in this kind of stock as well. Particularly in certain markets, the prices paid per unit for these types of properties increased dramatically, and there were many owners looking to the opportunity to convert these properties to condominiums, to a range of other types of options.

The credit crisis has had the effect of driving down the prices for these kind of properties. And I think if—I am an optimist, myself; I try to look at the opportunities we have in a crisis like this—I think if the committee can move quickly and we can put in place some of the tools that are in this bill, I think there is an opportunity at a very low cost to the taxpayer to preserve long-term these kind of assets for affordable housing in a targeted way.

So I think that there is, right now, a good opportunity where good, long-term preservation owners could come in and be able to purchase these properties at prices that are very cost-effective, particularly compared to where they were a couple of years ago, and get a lot of preservation done in the next few years. That was certainly the strategy we were taking when I left my local job, and I think it is something that at the Federal level is an important lesson, as well.

Mr. CASTLE. So, along the same lines, with the budget situation that we have today—and I understand the Recovery Act stimulus type dollars have gone into all this—but what other sources are available to help with the expiring mortgages and the potential loss of affordable housing units? And, again, are cities and States of any help in all this to what you are doing?

Secretary DONOVAN. Well, there has really been a growing awareness over the last decade of the importance of preservation of this stock. And today, low-income housing tax credits, which was mentioned earlier, are generally thought of as a new production tool. Today, roughly 50 percent of the units that are funded by tax credits are preservation units, rather than new construction.

So there has been a growing set of resources dedicated by State governments. A majority of States now have preservation set-asides in their tax credit allocation plans. And there are lots of other local resources that are available.

The only other thing I would say is that I think if we get the right kind of work done around energy efficiency, there is an enormous opportunity to get private capital moving into these properties, because ultimately what we have is long-term savings. If you add, say, $5,000 to the scope of work for an apartment that does a set of low-cost, smart, energy-efficiency items, you can save far more than $5,000 over time from those renovations.

The problem is, how do you convert that funding into capital today? And private mortgage financing, often with FHA insurance or other tools, can be a great way to try to get private capital in to help to drive this preservation, rather than using subsidy dollars.

Mr. CASTLE. Thank you.

The CHAIRMAN. Mrs. McCarthy?

Mrs. MCCARTHY OF NEW YORK. Thank you, Madam Chairwoman.

And thank you, Secretary. There are two questions that I want to ask.

One has to do with reverse mortgages, especially in this economical time. A lot of my elderly residents are thinking about doing this because they have lost their money, whatever money they had, obviously, in their savings accounts and retirement plans. Right now, reverse mortgages are extremely expensive, and the value of the house, obviously, has gone down.

The second question would be mixed housing. You know, going way back, probably in the 1950's, there was a lot more mixed housing. We had higher-, middle- and lower-income families who were living in the same apartment units in some communities. We are seeing that, for Long Island, especially, where there is a shortage of even rentals, it is extremely hard, but we are seeing also that certain projects are going in, as far as for retirement for wealthy seniors. They are beautiful condos, but I, myself, wouldn't even have been able to afford to go into this.

What are we going to do as far as spurring mixed housing, where you have the lower-income, middle-income, and higher-income working together, which I personally feel is very good for the lower-income families? They get good housing. The other incomes from the other two groups can help subsidize those in that housing. And I was just wondering if there was anything in the plan on that.

Just going back, because I left this bit out, are we going to have regulations on the reverse mortgages to allow for a lot of reverse mortgages? And if you could explain the program a little bit better.

Secretary DONOVAN. FHA, which is part of HUD, is the single most important source of mortgage insurance for the reverse mortgage program. And in our budget next year, we have actually requested an appropriation to allow us to continue to make reverse mortgages available at a significant scale without any changes in premiums or other loan terms.

And there has been some discussion with the appropriations committees about whether we should make some changes to the program that would eliminate that need for appropriations. Our initial concern was exactly as you say, that during these difficult times the reverse mortgage has become an even more important tool for seniors to be able to continue to meet needs for medical expenses and other key needs that they have. And so our choice in our budget was to keep the fees and the terms of the mortgage the same, rather than making them more onerous, in order to be able to maintain the program next year because we are the single most important source.

The other thing I think is important to mention is that there have been some concerns recently about fraud within the reverse mortgage program. That has generally been around the non-FHA forms of reverse mortgages. But it is something that we are taking very seriously and looking to increase funding next year for our fraud efforts so that we can ensure that seniors are safe when they get these kind of mortgages.

Mrs. MCCARTHY OF NEW YORK. I would like to work with on you that because I think the issues of fraud, especially for the seniors, is extremely important and if there is anything we can do here, I would like to work with on you that legislation.

Secretary DONOVAN. Absolutely.

Mrs. MCCARTHY OF NEW YORK. Mixed housing.

Secretary DONOVAN. Yes. So, from my experience as a local housing official, while there are certain things that we can do at the Federal level, much of the issue has been local regulatory barriers that stand in the way of producing that kind of housing, zoning codes, a range of other things. And I think it is very important that the Federal Government is never going to take over that function, nor should we. Those are local decisions.

What we can do, however, is support local decisionmaking that would create incentives and opportunity for the kind of mixed housing that you talked about. This was something that I worked on very closely at the local level, where we created, for example, inclusionary zoning, that would give bonuses in density for development that included a mix of housing.

Another example is we provided reductions in property tax rates for properties that included a mix of different rental levels within those properties. So the issue has been often that not only has HUD not supported the kind of information and best practices around what is being done nationally, but in fact many of our regulations and other things have stood in the way of that kind of development, whether it be our environmental restrictions or other things that can be overly restrictive.

So I think there is a lot that we can do, and we have a proposal in our 2010 budget, the Sustainable Communities Initiative, that would go to support those kind of efforts.

The CHAIRMAN. The gentleman from Florida, Mr. Posey.

Mr. POSEY. Thank you very much, Mr. Chairman. I have three or four questions, friendly questions. And I appreciate the greatest possible economy of words so we can work through all four of them.

When the housing bubble burst, how did the lower demand for property not in your affordable housing segment affect the supply? Your supply?

Secretary DONOVAN. There are different situations in different markets, but in general it increased the demand for the kind of housing that we are talking about. A little known fact is that 40 percent of those displaced by foreclosures in the country, about 40 percent—we don't have precise numbers—are renters. And so there was a significant increase, both in renters looking for units, as well as former homeowners looking for rental units, particularly at the affordable levels that this stock provides.

Mr. POSEY. Good explanation. Did many people move up when the thing burst and there became some short sales? You know, maybe some bargains on the market? Were people able to take advantage of that?

Secretary DONOVAN. What this has provided is an opportunity, particularly for first-time home buyers, to be able to purchase a home. In fact, the recent numbers are that roughly half of all purchasers have been first-time purchasers. They have been assisted by the $8,000 tax credit that was in the recovery bill and that we have assisted as well by providing FHA lending guidance to all of our lenders of how they can monetize that tax credit in the purchase of a home by a first-time buyer. So that has been an impor-

tant, that sort of getting into the market as a first-time buyer is an important part of stimulating demand again.

Mr. POSEY. And you think that component was successful?

Secretary DONOVAN. I think it has been successful, yes.

Mr. POSEY. You played a key role in implementing the Multi-Family Assisted Housing Reform and Affordability Act, MAHRA, and provided for the renewal of project-based Section 8 contracts at market rents with the goal to preserve the Section 8 portfolio. Do you know, or can you provide an estimate of how many units have been converted to market since the implementation?

Secretary DONOVAN. How many have been converted to market?

Mr. POSEY. Yes.

Secretary DONOVAN. I don't—what I can tell you is that since the implementation of that program, we have seen a significant decline in the number of properties that have gone to market. It is down from, and I have the exact numbers here somewhere, from about 200 properties in the year 2000 to, I think, less than 50 in the most recent year.

I also think one thing that is very important in this discussion about the cost effectiveness of preservation, the Mark-to-Market Program, while preserving tens of thousands of units of housing long term, has also saved billions of dollars in reductions in costs in the Section 8, Project-Based Section 8 Program. So I think it is an important example of the way smart preservation can both preserve affordable housing and save taxpayer dollars at the same time.

Mr. POSEY. Good explanation. Thank you.

Part of the bill when it talks about limitations to I guess the new financing, it says that the Secretary may exercise the authority to treat projects as eligible multi-family housing projects pursuant to the subsection only to the extent that the number of units in such projects do not exceed 10 percent of all units for which mortgage restructuring pursuant to section 517 is completed. I wonder if you could explain that. It is on page 109 of the proposed bill. Explain that for us a little bit, and maybe help us understand the 10 percent as a good value.

Secretary DONOVAN. So in the Mark-to-Market Program, there are certain properties in particular markets where the typical rent limits have been difficult to achieve, and that can be for a number of reasons; it happens to be on a street or in a particular condition that is just different from the overall neighborhood. It may be that it is a particularly important senior housing resource that has a set of services or other amenities available that is very different from surrounding properties.

I have seen this, one of the very early Section 8 properties I worked on was in Dodge City, Kansas, and was the most important senior housing resource in all of Dodge City. And so those exception rents are necessary in those kind of cases where you have an unusual property that doesn't meet the typical rules. And that, the limitation that is in the legislation has restricted in some cases being able to preserve those kind of properties without more exception rents.

The CHAIRMAN. Mr. Secretary, we are going to get you out of Dodge, but you will still be in Kansas. The gentleman from Kansas, Mr. Moore.

Mr. MOORE OF KANSAS. Mr. Secretary, as we consider the draft legislation from Chairman Frank, I appreciate the point that if the government does not preserve and improve affordable housing that have been produced through successful public-private partnerships, we stand to lose billions of taxpayer dollars from our prior investments.

On that point, Mr. Secretary, how would Chairman Franks' draft legislation protect prior taxpayer investments in affordable housing?

Secretary DONOVAN. I think it goes a long way to helping us with increased authority and flexibility to do that. In general, and I talked about this briefly earlier, in general, the costs of preserving these properties relative to the cost of enhanced vouchers, the cost of replacement housing, has typically been less than half when you compare it to the loss of these properties and Mark-Up-To-Market or whatever other alternatives there are. So, in general, it is an important component.

And I just want to mention specifically, I found the numbers I was looking for earlier, and this is an example to go to your point. With the Mark-to-Market Program and other efforts, decoupling and other things that have been put in place, the number of opt-outs has decreased from 288 properties in 2000 down to 44 in 2008. And so I think that does demonstrate that it can be cost-effective to preserve properties relative to the alternatives.

Mr. MOORE OF KANSAS. Thank you, sir. As the Oversight and Investigation Subcommittee Chair, I am looking for potential areas of waste, fraud, and abuse. Just last week, our subcommittee heard testimony from HUD's Inspector General to hear his thoughts on how we can strengthen oversight of FHA and HUD programs.

With regard to waste, fraud, and abuse, Mr. Secretary, do you agree the draft legislation proposed by Chairman Frank does protect and guard against potential misuse of taxpayer dollars?

Secretary DONOVAN. I do. I think there are a number of provisions that are important. And overall, I think we have made some strides, but there is farther that we can go. Over the last few years, there has been an increase in the use of automated systems. I know this from my own work at the local level, to really look at tenant income levels and a range of other things in a more automated way, which both reduces the costs of the program, but also allows us to ensure that truly low-income people who need this resource are being benefited. And that has led to a real reduction in the overpayments that we do on the behalf of the Federal Government in these programs. And I think this bill would allow us to go farther in some of those efforts.

Mr. MOORE OF KANSAS. Thank you, Mr. Secretary. Mr. Chairman, I yield back.

The CHAIRMAN. The gentleman from California, Mr. Miller.

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

You talked about the pressure on the rental market. And a lot of that is due to banks having to foreclose on properties, people are being put out, some of those properties were used for rental prop-

erties. In my area of southern California, probably about 76 percent of the homes on the market are distressed properties, in L.A. County about 58 percent. I think Orange County is 45 percent.

And the chairman has been working really well with me on a bill I introduced, H.R. 2529, that allows banks, when they foreclose on these properties, to lease them for up to 5 years, and that resolves many of the problems banks have today. They are forcing properties on the marketplace, thereby driving the value of homes down farther, distressing neighborhoods. And plus, the mark-to-market situation these banks are placed in, they have no choice but to do this and regulators are forcing them basically to do this. If we can accomplish this, it then takes a nonperforming asset on the part of a bank, it is a performing asset on the rental market. Plus I think it will relieve a lot of pressure that we are facing on the rental market. And the chairman has agreed to put this on the Consent Calendar, to go right to the Floor.

Our side is reviewing it now and I hope we can enact this rapidly, and I think that will relieve a lot of this pressure we are facing on the marketplace.

But last time we were here, I was teasing a little bit and we were joking back and forth, but I talked to you about downpayment assistance, seller funded. And you said that you believe that downpayment assistance is an effective tool if it is done right. I have introduced a bill with my colleagues, Al Green and Maxine Waters, and we have all been very patient working on this for quite a few years, trying to resolve this, dealing with equity, dealing with the fact that the appraisals have to be done properly and that there is equity in the unit once people buy it. And you said you would review that.

Have you had an opportunity to do that?

Secretary DONOVAN. We have begun reviewing it. We have been in touch with Congressman Green's office.

Mr. MILLER OF CALIFORNIA. Good. I am glad that he has been bugging you on this.

Secretary DONOVAN. I am hopeful that my FHA Commissioner will be in place shortly. Looking at the time, there was a 10:30 vote in the committee and I am hopeful that he will be in place. What I have communicated to Congressman Green's staff is what I would like to do is, as soon as my FHA Commissioner is on board, to then set up a meeting with your offices to be able to discuss the legislation. I want to make sure that I have real leadership in place around FHA to be able to look at the bill and make sure that we can get back to you.

Mr. MILLER OF CALIFORNIA. Well, my friends Mr. Green and Ms. Waters and I, we have tried real hard to make sure that DP is a gift, not a loan, defining that within the bill, that it creates immediate equity, which I know was a concern on your part before, that it ensures that it is a true gift in the bill, and the civil monetary penalties would go against any appraiser who inflated it in any fashion, because that was a concern of ours, too.

And you were right in bringing that issue up because that was a huge concern for us that the question of equity was resolved. The question of stability and safety and soundness were dealt with in this.

But I think the thing we are looking at is DPA is a private sector program. It doesn't cost the taxpayers anything, which is good. The bill, the language, deals with higher underwriting standards, which I know was a concern for you that we made sure the standards were appropriate, that language was in there that it was an absolute gift, could never be repaid in the bill. And the DPA basically, anybody who participated had to have homeowner counseling. And we have dealt with all of that.

But I think there is a situation in the marketplace today, as you are aware, that people have lost homes. People would like to buy homes. We have done a lot to the tax codes that help people with downpayment. But there is another option here that is available to people. And I think that we need to look at that opportunity. I think we need to, and hopefully we have done this in legislation the way we have drafted the bill, to provide safety and soundness, that you can look at this program and say it is a good, viable program. There is a way to enforce it. There is a way to make sure that the appraisals are done properly.

And one thing that I have a problem with, we have done recently in HVCC that I think you are aware of, we have taken the right away from a mortgage broker or a Realtor to do an appraisal on a piece of property, and thereby placed that opportunity with many different lenders and see who can provide the homeowner the best opportunity and the best deal. And we are seeing in the press reports recently a problem associated with this, especially when you are just allowing the bank to do an appraisal. Many times in this distressed marketplace, you will have an appraisal that is done by an outside appraiser who does not understand the marketplace in and of itself, and they are basing appraisals on distressed properties.

Have you looked into that in any fashion?

Secretary DONOVAN. We have heard this concern in a number of places. We have, frankly, limited control over the broader appraisal industry, but we have been looking at it relative to FHA.

Mr. MILLER OF CALIFORNIA. But we have limited the overall appraisal industry and made it specific to just a lender. And lenders, I am not saying lenders are bad, but many times a lender will use an appraiser that is not associated with a given area; it is just a group that they use. And my concern is that we are coming up with appraisals that are not valid based on a given justified area and we are coming up with an appraisal that takes into consideration too many of these properties that are just distressed.

Secretary DONOVAN. I do think that certainly is an issue that we are aware of. The broader issue, as we have seen it, is the number of distressed properties that are coming on the market driving those appraisals down. And I do I think there were recent numbers just released on existing home sales. And the numbers were actually relatively positive compared to what we have seen in prior life. Specifically, distressed sales dropped from about half of sales to roughly one-third. So hopefully that can help to deal with some of the appraisal problems.

Mr. MILLER OF CALIFORNIA. Thank you.

The CHAIRMAN. The gentleman from Georgia.

Mr. SCOTT. Thank you, Mr. Chairman.

Mr. Secretary, welcome. I would like to try to get three questions in, if I may. The first one is this. We have an abundance of seniors and other people with disabilities who are finding it more difficult to find adequate housing.

Mr. Secretary, we have another group coming on us with a great deal of disability, what we would call a new disability population emerging, and that is our veterans who are coming back, especially from the war in Iraq, with the downsizing and drawback over there. And these veterans have sustained traumatic brain injuries, a new deal, which many health professionals are describing as a distinct injury within the Iraq war. And as more and more of our troops are coming home and trying to acclimate back to their communities, we, as a government, must ensure that they have homes to come back to and provide that assistance.

As you remember, in the campaign there was a great deal of debate. One of our candidates pointed out we have veterans sleeping under the viaducts and all over. Well, I can tell you that to a degree, some of that is true. We have to put a new focus on helping these troops, understanding the nature of this brain trauma and understanding that they are disabled.

I would like to ask what can we do to ensure that they are being taken care of? And what specifically can you do, as Secretary of HUD, to make sure they are dealt with?

Secretary DONOVAN. Thank you for raising this issue because it is an enormously important issue, and it is one that has been an important focus in my first few months on the job. First of all, one of the most hopeful opportunities that we have is that Senator Murray and our Appropriations Committee has provided to us now 2 years in a row Section 8 vouchers specifically targeted at veterans at risk of homelessness. And that program, called VASH, just last week, I believe, we allocated an additional 10,000 of those vouchers to communities around the country. That is on top of 10,000 we had originally allocated the year before, and of which about 71 percent have now been authorized for use by veterans around the country. So that is one important step.

We also have a pilot that we have started, and this will be an immediate focus. I just became chairman of the Interagency Council on Homelessness, and we agreed at our first meeting that this would be an area of focus for us to go beyond these two initial efforts to help further.

Mr. SCOTT. Well, that is excellent, and I just want to extend my willingness to work with you. I have set up a hotline in my office because we have a serious problem down there to work with on you that. And I would certainly like to work with you.

My second question has to do with, I represent 32 cities and towns in 7 counties in and around the Atlanta metro area, and I continue to hear complaints from the housing authorities in many of these towns that I represent that they are having difficulty in being reimbursed for the money that they must put forward when a recipient uses a Section 8 voucher in their city rather than in the city where it was originally issued. They tell me that the originating cities are not being forthcoming in sending reimbursements.

Has the Department, has HUD been made aware of this problem? And if it has, what steps has HUD taken, or can it take to remedy the situation?

Secretary DONOVAN. This is the problem that we call portability. An important feature of the voucher is to be able to follow a job, follow a family, whatever it might be, to be able to use that voucher in other jurisdictions, and this has been an ongoing problem. There are some changes that we can and are making to help this, but the fundamental issue is a funding issue and is a legislative issue. And we have been working closely with the authorizing committees, including this one, around the Section 8 Voucher Reform Act. There was a hearing on it the other day, and this is one of the issues that would be solved by that bill.

Mr. SCOTT. Excellent. Let me see if I can squeeze in my last question.

HOPE VI, the HOPE VI Program is a jewel, especially in the Atlanta area. It is a great program, I think you know, run by our good friend, Renee Glover. It is very successful and has facilitated deconcentration of poverty, it has integrated extremely-low-income families into the mainstream. It has leveraged tax dollars.

However, I do understand that this initiative has not been without some challenges, and I want to keep it going and let it be successful. But it is also important to mention that HOPE VI has led to a lot of solutions that are far better than any other option available to us and has been immeasurably more effective than maintaining the status quo.

I would like for you to elaborate just briefly on the main challenges you see with this program, as well as the concerns about the Moving to Work Program.

Secretary DONOVAN. Very briefly, I do believe that, in general, the HOPE VI Program has been quite successful. There are issues that we have seen around replacement housing and adequate replacement housing that have been issues in some areas, costs of the program in some areas, but broadly speaking, it has been a success, so much so that we are proposing in our budget to more than double the funding available for this kind of comprehensive redevelopment and, as I mentioned earlier, to expand the ability to include assisted housing as well as public housing in these kinds of efforts. In addition to that, to link it up more closely with school reform because I think where it hasn't succeeded as well as it should, it hasn't been as integrated into other kinds of community revitalization such as schools as it should be.

Mr. SCOTT. Thank you very much.

The CHAIRMAN. The gentlewoman from Illinois.

Mrs. BIGGERT. Thank you, Mr. Chairman.

Thank you for being here, Mr. Secretary. I just have a couple of questions. When we are looking at the aging baby boomer population, we worrying, I think, about an affordable housing crisis for the elderly. But my concern, I am wondering what has happened to the Moving to Work Program? I know that the last Administration and some legislation had talked about expansion of that program. And I was, the reason I am concerned was because one of my housing authority groups was really very interested in being a part of that and we can't—there doesn't seem to be much data on

it. Is that still a viable program that is going to be expanded? Or what is the status of it?

Secretary DONOVAN. The Moving to Work Program has been an issue in terms of potential expansion or changes in the Section 8 Voucher Reform Act that I just mentioned. In general, what I would say is that our sense is that the program has provided increased flexibility that has been positive in general. We do have concerns, first of all, that there has not been the kind of rigorous evaluation of the program that would be most helpful in terms of understanding exactly what those benefits are.

This has been a broader issue with HUD frankly, and I am very committed to expanding our research and evaluation efforts, and I think it is important that the bill, should it move forward, includes that.

The other issue is really around tenant protections and ensuring that the kind of innovation and flexibility that is provided ensures that we continue to serve the people who need it most, and to ensure that they are protected. And, in fact, beyond just protected, have the kind of incentives for work and other things that are important in terms of self-sufficiency in there.

So I think those are both issues that I have talked about previously in testimony and that we are hopeful will be included in the Section 8 Voucher Reform Act.

Mrs. BIGGERT. Do you think that that would be something that would help as far as the affordable housing, if we have people moving on then you are going to have the housing stock will be available? Do you have any data on that, how many people?

Secretary DONOVAN. We have limited data available about the impacts of the flexibility that has been provided. I do think we have seen some examples of innovative approaches in Seattle and in King County and other places, but unfortunately, we don't have the kind of comprehensive data that we would need to be able to say exactly how the program is performing.

Mrs. BIGGERT. What are some of the other programs then that you see will really address the needs of the elderly population?

Secretary DONOVAN. A couple of things I would say on that front. I believe that we have a real opportunity to provide more effective solutions for the aging baby boomer generation by allowing them to stay in their homes, rather than have to move to more institutional settings that are not only against what they would choose, but also, frankly, more expensive for the taxpayer in terms of the cost of those options. So we are looking at a range of ways within our programs, whether it be the 202 program, which is specifically for low-income seniors, examining the tax credit programs, our service coordinators. There is a range of ways that we could help to provide seniors the kind of support that they need where they currently live in their communities, rather than forcing them to move to more institutional settings, more expensive settings outside of their communities.

Mrs. BIGGERT. Then just one other question, which really is kind of off the topic, but I think that I asked you at the last meeting. I just wondered if there has been any progress about getting RESPA and TELA together? What is the timetable for RESPA and coordinating with TELA for the rulemaking?

Secretary DONOVAN. There is a short-term answer to that and a long-term answer to that, which Chairman Frank knows very well. First of all, we have begun a working group with the Federal Reserve to try to better coordinate RESPA and TELA. I have spoken with Chairman Bernanke about that, and his staff is working actively now with my staff to try to do that.

In the longer run, we have proposed as part of our regulatory reform proposal that we create a single, more thoughtful, and effective consumer protection agency, and that is something, obviously, Chairman Frank has been working very closely on that. Part of the proposal is that both RESPA and TELA enforcement would move to that new agency and be enforced in a completely integrated way by a single agency, rather than in the kind of divided fashion that it is now across multiple regulators.

Mrs. BIGGERT. This isn't the Consumer Protection Agency that we are talking about, or is it?

Secretary DONOVAN. Absolutely.

Mrs. BIGGERT. All right. Thank you. I yield back.

The CHAIRMAN. I thank the gentlewoman. You know, there are conflicts in the government that sometimes are difficult to deal with because of jurisdictions, but this committee has jurisdiction over both RESPA and TELA, so if we can't get that resolved we are culpable, and we are determined to deal with that. It is in different subcommittees but it is in the same full committee.

The gentleman from Texas.

Mr. GREEN. Thank you, Mr. Chairman.

Mr. Secretary, I was very pleased to hear your comments about the veteran population. As you know, we have about 130,000 to 150,000, depending on who is counting, sleeping on the streets of life nightly. About 300,000 will annually find themselves in and off the streets of life with a homeless problem, homelessness problem.

We also would like to call to your attention that we have passed legislation called the Home for Heroes from this committee; we are honored to have the Housing Subcommittee Chair be of great assistance with this piece of legislation, as well as the Chair. It passed 417–2. And it has gone to the Senate. It provides for a holistic approach to dealing with homelessness among the veterans. It allows us to have a person in HUD, and I am hoping that this will give you the flexibility that you seek, a person within HUD whose responsibility it is to monitor homelessness among veterans and to report to Congress, give us a report as to the status of the progress that is being made or the lack thereof.

The bill also deals with the HUD–VASH program that you called to our attention, providing about 20,000 more of these vouchers. Hopefully that will give you additional flexibility as well.

Many of the veterans, as you know, are persons who suffer from substance abuse. It provides counseling and helps various agencies, NGOs that deal with these issues, by giving them grants so that they can help us to facilitate moving veterans from homelessness to jobs and housing.

I would like to, if I may, pass on the actual bill to you. I am sure you can pull it up quite easily but it is something that I would invite you to take a look at because I think it goes a long way toward helping us with homelessness among the veterans.

I also would like to mention very briefly to you the seller assisted downpayment bill. What we are proposing now is very much unlike what was in place before. It recognizes that empirical evidence suggests that those who have FICO scores greater than 679 perform at the same level as those persons who receive downpayment assistance from relatives or from some entity of the government, for example. But it also recognizes that those who have FICO scores below 679 may not, and as a result there is risk-based pricing for them such that we don't end up having to subsidize the program. The program continues to pay for itself by virtue of the additional premiums that are paid and by virtue of the additional downpayment that is required. I think that a close look at this will give you a greater opportunity to better understand.

I am going to ask unanimous consent that I be allowed to just pass on to you a summary of what we propose such that when we do have this opportunity to visit you will have had an opportunity to peruse this summary.

Mr. Chairman, with your consent and permission, and by unanimous consent, I would like to present this to the Secretary.

The CHAIRMAN. Without objection, it will be made part of the record. As far as presenting it to the Secretary, he is on his own. But I can make it part of the record.

Mr. GREEN. Thank you. I will make it part of the record, and I will pass one on to you.

Secretary DONOVAN. Let the record state that I will accept the letter.

Mr. GREEN. Thank you, Mr. Secretary. And in closing, I do have to say this: Chairwoman Waters and Chairman Frank have really been a great benefit on these two pieces of legislation. This is something that we have been working on for quite a bit of time, and I believe that these are pieces of legislation that can help us without creating the type of cost that we sometimes have to endure when we bring new legislation on-line. The Seller Assisted Down Payment Program works.

Now, finally, I want to share this with you. A friend of mine, B.B. King, has a song—and I am speaking now for the tenants—titled, "Everybody Wants to Know Why I Sing the Blues." And in that song, one verse reads, "I've laid in a ghetto flat, cold and numb, I heard the rats tell the bed bugs to give the roaches some." And then he goes on to say, "I stood in line down at the County Hall. I heard a man say 'We're gonna build some new apartments for y'all.' And everybody wanna know why I'm singing the blues."

Now I mention this to you because many people blame tenants for wanting to stay where they are in living conditions that are less than acceptable. Well, tenants have had promises made that haven't been kept, and tenants have good sense. They know that before they agree to have something demolished that they can get in the future, they ought to try to hold on to what they have now. So many of them are willing to live in conditions that are less than what you and I might live in, but they do so because they are afraid that if it is demolished they won't get something new.

Example, in New Orleans one-for-one replacement was promised. So far that promise has not been kept, and I have persons who can validate what I say. So we have tenants in New Orleans who were

a little bit disenchanted, who didn't want to leave what they had, but it was only because they know that promises made are not always promises kept. And everybody wants to know why they sing the blues. Because we don't always keep our promises.

Thank you.

Secretary DONOVAN. Well said.

The CHAIRMAN. The gentleman from Missouri.

Mr. CLEAVER. Mr. Secretary, the Temptations have a song called—

Thank you, Mr. Chairman. Mr. Secretary, thank you for being here. And my comments won't be quite as colorful as my long time friend, the judge, which also were profound.

Before I get into the 108 program, I am sorry, the Section 8 Program, I want to talk about the 108 program, if you could, because it could have some impact. I am wondering whether or not you and your staff are looking at the 108 loan program, and whether or not there is a need for updating it.

I was the Mayor of Kansas City and we were the first City to use the 108 loan program. We built a downtown hotel. And things have changed since those days. At first we didn't have to use the CDBG fund to guarantee the loan, or the general fund, which I guess is happening in a lot of cities. In light of what is going on with the banking industry and the fact that there are a lot of urban developments that won't get started now because of what banks are doing, do you think there is any need to take a serious look at updating the 108 loan fund so that it is contemporary with the issues we are confronting?

Secretary DONOVAN. In fact, I do, and we have a proposal in our 2010 Budget that would change the way the 108 program works to basically make it self-financing rather than dependent on specific appropriations. Our concern has been that the demand is often particularly, as you said, with the credit crisis, could exceed the availability of those appropriations. And so we also think that now we have enough of a track record in the lending in the 108 program and a very limited loss rate in that program that we could establish, the way we do with many of our other loan programs, a credit subsidy rate and have it be self-financing going forward.

Mr. CLEAVER. Like a revolving loan fund?

Secretary DONOVAN. Not necessarily revolving, but that it would no longer require the appropriations and the CDBG offsets the way it has. So we would be happy to share more information with you on that.

Mr. CLEAVER. Yes, I am very much interested in that program. I think it was one of the best programs to come along from HUD in terms of saving the cities. I am sure there may be some who would argue with that, but I have arguments to counter it.

If we can go to the Section 8 Program, we are going to lose, in the next few years almost, there is a possibility we could lose almost one million 108 certificates or the housing that is now currently being available, the contracts will expire. I am not sure the exact number, but I think it is near close to one million.

Secretary DONOVAN. Close to a million, yes.

Mr. CLEAVER. And so we are going, I am assuming that you are going, your staff will be directed to begin to work with all of the

owners to see what can be done to get them to agree to another contract.

But one of the things that I would ask you to consider, and if it is not feasible I would like to hear your comments, and that is in Kansas City we are doing something called a Green Impact Zone. We are doing 150 blocks with a smart grid and the whole 9 yards.

Secretary DONOVAN. I heard about it.

Mr. CLEAVER. So what I am wondering, we have lost about 2,000 housing units over the last 10 years. They are gone. The City eventually demolished them because they were considered dangerous buildings, and so they are gone. And there are also many empty properties there. Is it feasible that as we lose these or as we have to deal with about a million units needing new contracts that we can acquire in the urban cores dangerous buildings, do some rehab like we are doing with money from the stimulus anyway, and create additional housing with housing that would otherwise be demolished? I am concerned about sustainability and also recycling.

Secretary DONOVAN. In fact, in this bill there are provisions that would allow HUD to move existing Section 8 contracts to other properties. And this is something actually I pursued personally at a local level, and I would love to have some more discussions with the committee about the flexibility that would be needed to do the kind of innovative things that you are talking about, to ensure that this can actually work, because the current way that this is structured, in current law, is fairly cumbersome to use. It has been difficult, given all realities of how real estate works, to make that provision financial, to move Section 8 units, to be able to preserve them, even if it is in a different property. And I think even with what is in the bill, some added flexibility to that would be useful to make it really effective.

Mr. CLEAVER. I would really like to spend time with—

The CHAIRMAN. Let my invite my colleague to work with the staff of the committee and the subcommittee on that and help be part of that process and, you know, I am always glad to have members who have a particular interest in a particular provision. So we would be glad to have you and your staff work on that.

The gentleman from Indiana.

Mr. CARSON. Thank you, Mr. Chairman. I am grateful for your advocacy on this issue.

I have a question, Mr. Secretary. The chairman's inclusion of a national preservation database in this bill is essential to empowering tenants and advocates. Do you see any advantage in expanding the notification requirements in the bill to require HUD to proactively reach out to congressional offices, local tenant protection groups, legal services, and community improvement groups when a multi-family housing property owner notifies your Agency that it intends to terminate affordable restrictions?

Secretary DONOVAN. First of all, I worked on this very directly when I was at HUD the first time. I think that that notification and providing as much information as possible to residents is very, very important. In fact when I was at HUD the first time, we increased the amount of disclosure that we would do, provided infor-

mation to residents posted in offices, so expanded that. I do believe that is important.

Two things I would say about that. First of all, and this applies to the database as well, there are certain types of information that are protected, and we have to be careful, and we would like to work with the committee on ensuring that protections of competitive information, certain financial information that we are clear what legal protections they are. Short of those, I think releasing the more information the better.

The second thing I would say is that one risk is that if we require so early in the process that there be notifications, what can happen is that owners, to preserve their options, will make those notifications, and that will have the effect, even if there are no specific plans to opt out of the property, to cause undue concern and fear on behalf of residents. And so there are some provisions, for example, that would require in the bill a 2-year notification rather than a 1-year notification. I think we need to look carefully and discuss what is the most appropriate time for that information. It has to be early enough so the tenants can get together if they want to purchase the property, if they want to work with a nonprofit group or other purchasers, they have time to do that effectively to preserve their property. On the other hand, we don't want to do it so early so that we are unnecessarily frightening residents when in fact the owner may not have any concrete plans at that point in terms of what they are doing with the property. So there is some balance that we have to strike. My belief is to ensure that we are providing the right information to residents, but not unduly concerning them, when in fact the owners haven't made a decision at that point.

Mr. CARSON. Thank you, Mr. Secretary. I yield back, Mr. Chairman.

The CHAIRMAN. I will take advantage of that to say I am glad you made that last point because there is balance, and we don't want to force premature and maybe unnecessary decisions. And I will say this, in an atmosphere in which we have the right legislation and in a cooperative Administration, the need for that notice may be even less than it was. The notice is there and it is very important that in an adversarial situation, but in a cooperative situation, we don't have to, I think, rely as much on that.

Mr. Secretary, this has been very useful. It has been a wholly constructive exchange of information, which means it will attract absolutely no attention in the media, but it will advance legislation. And I am confident, listening to people on all sides here, that we will have a comprehensive preservation bill with your great help ready to go by the end of the year. And I will say I have spoken to my colleagues in the Senate. I know Senator Reed, Senator Jack Reed, who does housing, and others, Senator Schumer, of course, is well aware of the importance of this from his own State. So I am pretty optimistic we will have a very good piece of legislation available for signature before the end of the year.

The hearing is adjourned.

[Whereupon, at 11:50 a.m., the hearing was adjourned.]

A P P E N D I X

June 25, 2009

Opening Statement of the

Honorable Maxine Waters, D-35th CA

Committee on Financial Services

*Hearing on "**Legislative Options for Preserving Federally- and State-Assisted Affordable Housing and Preventing Displacement of Low-Income, Elderly and Disabled Tenants**"*

Thursday, June 25, 2009
2128 Rayburn House Office Building
10 a.m.

Thank you, Mr. Chairman.

Today more than ever before, affordable housing preservation is critically important to our nation's low-income families. Through the foreclosure crisis, we have seen just how important our affordable housing inventory can be—to renters who find themselves threatened with eviction as a result of foreclosure and to homeowners who have lost their homes and now need an affordable place to live while they repair their credit.

But foreclosures aren't the only reason why affordable housing preservation is important. Under the Bush Administration, HUD simply wasn't in the business of preserving affordable housing. As a result, affordable housing incentive programs— like Section 236 and Section 221(d)(3)—are essentially a thing of the past. These developments still exist, but the clock is ticking on their contracts. And unless we act soon, the owners of these units will convert them to market rate, robbing the communities that rely on these units from a valuable affordable housing resource.

From 1995 to 2003, our nation lost 300,000 subsidized affordable apartments through conversion to market-rate housing or physical deterioration. And over the next five years, contracts on more than 900,000 Section 8 units will expire. Once these units leave the affordable housing stock, they are not replaced. That is why we must fight to preserve each and every unit.

In 2007, we saw first hand the potential impact the loss of an affordable housing development can have on a community. At the request of Rep. Towns of Brooklyn, New York, I held a field hearing at Starrett City, the nation's largest affordable housing development, which was on the verge of being purchased by a developer with a questionable housing management past and an even more questionable plan for keeping the development affordable.

At that hearing our current HUD Secretary—then head of the New York City Housing and Preservation Department—testified about the importance of preserving Starrett City and following that hearing I know that he worked with the tenants and the state to broker a deal to keep the project affordable over the long term. That kind of dedication to affordable housing is refreshing and I know that the Secretary is bringing that same dedication with him as he charges HUD to make preservation a priority.

Although the preservation of Starrett City was a great victory, it is just one development. There are thousands of other properties that may not be as large but are equally at risk of permanently falling out the nation's affordable housing inventory. When owners opt out of these programs, residents pay the price.

I look forward to hearing from our witness on the legislation before us today. Thank you, Mr. Chairman. I yield back the balance of my time.

ANDRÉ CARSON
7TH DISTRICT, INDIANA

COMMITTEE ON FINANCIAL SERVICES

SUBCOMMITTEE ON
CAPITAL MARKETS, INSURANCE AND
GOVERNMENT SPONSORED ENTERPRISES

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Statement of Congressman Carson
Financial Services Committee Hearing
"Legislative Options for Preserving Federally- and State-Assisted Affordable Housing and Preventing Displacement of Low-Income, Elderly and Disabled Tenants"
June 25, 2009

Thank you Mr. Chairman,

I applaud your tireless efforts on the issue of affordable housing preservation. The comprehensive legislation you have put forth recognizes the desperate need for accessible, affordable housing in our communities.

I also want to recognize the Secretary Donovan's reputation for successfully championing preservation efforts, such as the ground-breaking Starrett City deal. Under your leadership, I am confident HUD will move in the right direction not only on preservation issues but also on the numerous vital programs that have been cut or ignored over the past eight years.

The preservation of federally- and state-assisted housing is a tremendous priority for me as the Representative of Indiana's Seventh Congressional District. In Indianapolis, the economic crisis that started on Wall Street has only exacerbated the financial situations of our low-income residents.

Unprecedented job loss and foreclosures have increased the demand for affordable rental units dramatically. In my district alone, we have a nearly 16,000 unit deficit of affordable rental opportunities for extremely low income families. It is time that we stop the tide of affordable housing losses and seize this opportunity to reinvest in our neighborhoods.

I am grateful that the discussion draft of Chairman Frank's "Housing Preservation and Tenant Protection Act of 2008" does just that.

Last year, a 77-unit project-based section 8 property in my district was targeted by HUD for closure due to low inspection scores. My office, local officials and community advocates were made aware of the situation only after it was too late to help arrange for a sale of the property to a new owner committed to maintain its affordability. Further, by the time we found out, many tenants had already moved in with family or disappeared, so we had no way to help them find new, stable housing.

Under Chairman Frank's legislation, information regarding these contracts would be available in a National Preservation Database that would list expiration dates, demographic information on the tenants and the most recent three inspection scores for these properties. In my view, this is one of the most essential and empowering tools to preserve affordable housing in the draft.

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But, there are other significant changes in the bill that I support such as the option to convert Rental Assistance Payment or Rent Supplement contracts and enhanced vouchers to project-based section 8 and allowing preservation purchasers to step in and buy assisted properties before they fall into greater disrepair and enter foreclosure.

This legislation is not only compassionate, it is cost-effective. It costs approximately 40 percent less to preserve an existing apartment than to construct a new apartment. Those are resources we do not have. So it simply makes sense to enact these needed reforms and I look forward to working with Chairman Frank and Secretary Donovan to move this legislation forward.

Thank you.

STATEMENT OF SECRETARY SHAUN DONOVAN
LEGISLATIVE OPTIONS FOR PRESERVING FEDERALLY- AND STATE-ASSISTED AFFORDABLE HOUSING AND PREVENTING DISPLACEMENT OF LOW-INCOME, ELDERLY AND DISABLED TENANTS
2129 RAYBURN HOUSE OFFICE BUILDING
THURSDAY, JUNE 25, 2009

Thank you, Chairman Frank and Ranking Member Bachus, for your attention to these issues. Chairman Frank I want to acknowledge that you have been the champion and advocate of preservation of the HUD-assisted housing stock for a very long time. Without your efforts, many more families would be without affordable shelter. I am looking forward to working with you and the Committee to further the preservation agenda.

This is an important hearing. Today, HUD provides rental assistance for over 1.4 million assisted units across the country. This stock is a critical resource for countless families, serving the low- and very-low-income families who otherwise would not have access to safe, decent, affordable housing.

We know from experience that preserving affordable housing is essential. If the current economic crisis has taught us anything, it's that it is long past time that we had a balanced, comprehensive national housing policy – one that supports homeownership, but also provides affordable rental opportunities, and ensures nobody falls through the cracks.

Today, there are less than 3 units available for every 4 very low-income households – and only half the number of units needed for families in extreme poverty. As we watch the number of homeless families with children begin to rise, we remember that a significant factor contributing to the resurgence of homelessness in the early 1980s was the failure to preserve hundreds of thousands of units from an earlier generation of affordable housing. And so, we can't afford not to take this challenge on.

And Congress and HUD together are already doing just that. This Administration, thanks to Congressional support, is committed to fully funding project-based Section 8 contracts for 12 months, through the Recovery Act, as well as full funding in HUD's 2010 budget.

Our budget also requests a higher level of federal funding for housing vouchers – the most direct means to meeting the affordability challenge facing very low income renters and the most efficient means of addressing the increase in homelessness I just referred to.

While we have made progress, more action is needed, which is why I am pleased to inform the Committee that HUD supports the fundamental principles of the draft bill. The bill tackles a detailed list of actions that could be taken. This legislation provides us with the foundation to move forward in a comprehensive and strategic manner. We must still evaluate it of its costs and implications but allow me to highlight three important themes embraced in this bill that will be critical in guiding us forward:

First, HUD needs to be a leader and a partner in preserving critical housing resources. Too often it seems that HUD policies and practices get in the way of preservation efforts instead of supporting them.

That is going to change.

Going forward, we are adopting a problem-solving ethos and collaborative working relationship with our partners (that is owners, residents and local government). I recognize that historically this may not always have been the case. The draft bill highlights the kind of practices that we can consider changing that will demonstrate this new partnership attitude. For example, when a property is undertaking substantial capital improvements, we can agree to establish the After-Rehab Section 8 rent upfront before the rehabilitation begins. That means that owners, lenders and their financial partners would have the certainty and confidence they need to undertake this new investment.

Likewise, we can look at agreeing to enter into longer term Section 8 contracts, subject of course to annual appropriations and structured to provide HUD with flexibility to cancel contracts with owners of non-performing properties. This would boost tax credit investor confidence by demonstrating our intent to be a long term partner in the project. This type of action is particularly important at this time when investors are in short supply.

These two examples, among many, from the legislation, can be done administratively. We will continue to identify all of the elements in the bill which we might be able to tackle

administratively and quickly. Again, we want to be a leader and a partner in this crucial preservation effort.

Second, information is critical. We applaud the concept of a national database that will give us access to the information that we need regarding America's affordable housing stock, including – how much is HUD-assisted, what developments have multiple financing sources, and when mortgages are maturing in order for us to better predict our voucher commitments.

Mr. Chairman, I am a numbers guy – I am serious about evidence-based decision-making. A comprehensive database would help us do a far better job of preserving as many units as possible for the least amount of money.

This leads me to the final point – one-size does not fit all in approaching the challenge of preserving affordable housing.

The data and analysis we do on the portfolio of properties will lead us to tailor our efforts to specific problems. For instance, what is needed for a deeply troubled property in a challenged neighborhood may be very different from what is needed for a well-maintained property in a good housing market at the end of its mortgage term. A flexible menu of solutions will be required and it must be based on solid data and analysis. We want to work with you to ensure that we have the needed flexibility in this legislation. One concept that we are very interested in pursuing is linking the preservation of the existing affordable housing developments with broader initiatives that benefit communities. We want to look at prioritizing the preservation of developments that are integral to sustainability- such as those adjacent to transit or with great access to job opportunities.

My staff, led by my new Deputy Assistant Secretary, Carol Galante, has been working diligently over the past several weeks gathering together owners, tenants, and non-profit leaders to listen to their thoughts, ideas and suggestions regarding preservation.

Congressional staff has been attending these sessions and together we have been working to better understand the challenges we face and how to craft more workable solutions. As these conversations progress, there may be further ideas, like the link to sustainability I cited

earlier, that we may wish to have considered. These conversations are an important part of our efforts to work with you as you further refine this bill.

We know how important affordable housing preservation is to the long-term success of our communities. And we recognize that hard choices will need to be made to get the most out of our resources and make a difference for millions of families. We will need to look at the costs and work with you to prioritize what is essential and what is most cost effective.

But with a new set of priorities, a new commitment to collaboration and accountability, and a new way of doing business here at HUD, I am convinced we can and will. Thank you.