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LEGISLATIVE PROPOSALS IN THE UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT'S FISCAL YEAR 2012 BUDGET

HEARING

BEFORE THE

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

ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

ON

EXAMINING THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT'S FISCAL YEAR 2012 BUDGET

MAY 5, 2011

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C O N T E N T S

THURSDAY, MAY 5, 2011

WITNESS

LEGISLATIVE PROPOSALS IN THE UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT'S FISCAL YEAR 2012 BUDGET

THURSDAY, MAY 5, 2011

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

The Committee met at 10:05 a.m., in room SD–538, Dirksen Senate Office Building, Hon. Tim Johnson, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN JOHNSON

Chairman JOHNSON. I will now call the Committee to order. I am pleased to once again welcome HUD Secretary Shaun Donovan to the Committee to discuss the Administration's budget request and HUD's legislative agenda.

Secretary Donovan, you come to us at a challenging time. Our families and our State and local government partners continue to struggle during this economic downturn. HUD administers programs that aim to provide access to quality, affordable, and safe housing for homeowners and renters. These programs often provide a needed lifeline to our most vulnerable citizens, and in today's economy they are more important than ever.

Far too many American families and communities still face the threat of foreclosure, and millions more have seen their property values fall in a fragile housing market. And although it may seem counterintuitive, housing has become less affordable for lower-income families even as housing values have plummeted. Recent studies by your Department have shown dramatic increases in worst-case housing needs among very low income earners and even homelessness among families.

As you know, as you saw during your visit to South Dakota last year, many tribal communities continue to struggle with a shortage of economic opportunities and a lack of housing choices. As their need for affordable housing rises, HUD and local providers face increasing difficulties in preserving the resources we have due to aging buildings and expiring affordability contracts. Meanwhile, States and local governments are slashing services and job-creating investments.

As the country faces these daunting challenges, the Federal Government must ensure that we make wise investments and preserve important programs that help those most in need, and at the same time we must also be mindful of our budget constraints and be certain that we get the most value for our dollar.

These times make the effective use of Federal housing and community development resources all the more important. As you have said, you have made a number of hard choices in your fiscal year 2012 budget, cutting funding for several programs that you otherwise support in order to meet to these fiscal goals. I am concerned, as you may be, that the number of these cuts could halt our progress in addressing the needs of citizens. But your budget also contains a number of proposals intended to increase HUD's effectiveness, including those to improve HUD's administration and oversight of $48 billion in programs, strengthen the management and financial standing of the FHA insurance programs as they provide critical countercyclical financing to the housing market, empower communities, provide new tools to help create and preserve public and assisted housing, and streamline our public housing and Section 8 programs to make them more effective for grantees and families.

HUD provides vital resources for millions of Americans who struggle to meet one of our most basic needs: a safe place to live. As we continue to debate the budget and tackle the deficit, we cannot afford to leave Americans out in the cold. I look forward to our discussion of your proposals during today's hearing.

I will now turn to Senator Shelby for any opening remarks he may have.

Senator Shelby.

STATEMENT OF SENATOR RICHARD C. SHELBY

Senator SHELBY. Thank you, Mr. Chairman.

Welcome to the Committee again, Secretary Donovan. You have a tough job. We all know that.

Our Nation's debt, as the Chairman has alluded to, is on an unsustainable path. We all know this. At the end of 2008, our Nation's debt stood at $10 trillion. Today, not even 3 years later, that debt is $14.3 trillion. Even worse, CBO estimates that our total national debt will be nearly $27.6 trillion by 2021. Think of that—$27.6 trillion.

Ironically, the Office of Management and Budget declares on its Web page that the President's budget "puts the Nation on a path to live within our means." I wish that were true. Unfortunately, while the President talks of living within our means, his budget produces a different result. The HUD budget is a good illustration.

Secretary Donovan states in his prepared testimony that the Administration's budget "reflects the need to ensure that we are taking responsibility for our country's deficits." Yet HUD's own summary of the budget states that the Department's gross spending will increase by $900 million for 2012.

HUD's net level, as that is called, of spending, however, will apparently fall by $1.1 billion. Very interesting. It appears that HUD arrives at this figure by offsetting the total spending numbers with $6 billion in fees that are to be collected by FHA and Ginnie Mae. It was my understanding always that these fees were supposed to be used to ensure the safety and soundness of these two entities.

It appears that they are being used to offset the cost of programs elsewhere in the HUD budget. I hope I am wrong.

While this is a new concept in Government accounting—this is not a new concept in Government accounting. We are going to have to be honest with the American people and with ourselves about what we are actually spending if we are serious here in the Congress about getting our debt under control. I think we must find a way to curtail our spending if we can ever hope to restore our Nation's long-term health.

I look forward to hearing from Secretary Donovan today on how HUD can tighten your belt while contributing to essential services that we need in the housing area.

Thank you, Mr. Chairman.

Chairman JOHNSON. Secretary Donovan, please proceed.

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

Secretary DONOVAN. Thank you, Chairman Johnson, Ranking Member Shelby, and Members of the Committee, for the opportunity and for your partnership, which I was reminded of again this past weekend as I joined other members of President Obama's Cabinet to tour the devastation wrought by the recent tornadoes. As I prepare to return to the region next week, I want to assure you, Senator Shelby, and the four other Members of the Committee from affected States that I will do everything in my power as HUD Secretary to ensure this Administration makes the lives of displaced families whole again.

Today I come before the Committee to discuss the investments HUD's fiscal year 2021 budget proposal calls for to help America win the future by out-educating, out-innovating, and out-building our competitors. I will also highlight the steps our proposal takes to improve how we operate HUD's programs and the tough choices it makes to ensure we take responsibility for our deficits.

Obviously, our fiscal year 2012 proposal was developed before the continuing resolution for this fiscal year was passed by Congress and signed into law by President Obama. Although the cuts in this agreement were necessary to ensure we live within our means and keep the Government running, the President noted that the CR contained real cuts that will have real impact on services and people who rely on them. Indeed, I believe the President's 2012 budget strikes an appropriate balance between the need to reduce spending and preserve critical services for Americans.

Mr. Chairman, in developing our 2012 proposal, we followed three principles to help us strike this balance.

The first is to continue our support for the housing market while bringing private capital back. Two years ago, with the housing market collapsing and private capital in retreat, the Administration had no choice but to take action. The critical support FHA provided has helped over 2 million families buy homes since that time, and nearly 1.5 million homeowners refinanced into stable, affordable products with average monthly savings exceeding $100.

And while FHA and Ginnie Mae will continue supporting the housing recovery in the year ahead, we also must help private capital return to the market. This is a process that HUD began many months ago, and I want to thank Congress for passing legislation in the last session to reform FHA's mortgage insurance premium structure. With this authority, FHA increased premiums by 25 basis points last month. Because of these reforms and others, FHA is projected to generate $9.8 billion in receipts for the taxpayer in fiscal year 2011.

Indeed, the reforms that are generating these receipts today have set the stage for more private capital that will return in the years to come while ensure that FHA remains a vital source of financing for underserved borrowers and communities. And while HUD's fiscal year 2012 request is $47.8 billion in gross budget authority, because of FHA and Ginnie Mae receipts, the cost to the taxpayer for this budget is only $41.7 billion. This is consistent with the President's proposal to bring nonsecurity discretionary spending to the lowest share of the economy since President Eisenhower.

The second principle we used to develop our budget was to protect current residents and improve the programs that serve them. While the median income of American households today is over $50,000, for households who live in HUD assisted housing it is $10,200 per year, and more than half are elderly or disabled. At the same time, having seen from 2007 to 2009 the largest increase in the history of HUD's Worst Case Housing Needs survey, it is clear that the recession hit these families hard. That is why 80 percent of our proposed budget keeps these residents in their homes and provides basic upkeep to public housing while also continuing to serve our most vulnerable populations through our homeless programs.

Because the cost of serving the same families grows each year, protecting existing families in our programs required us to make tough choices with the remaining 20 percent of the budget, including the decision to reduce funding from 2010 levels for the community development block grant, HOME Investment Partnerships, and new construction for HUD-supported housing programs for the elderly and disabled. I saw for myself as a local housing official the difference these funds can make, supporting senior housing, Boys and Girls Clubs, YMCAs, and other providers of critical community services. These cuts are significant, but with American families tightening their belts, we need to do the same.

I would note that this budget provides $88 million for the Housing Counseling Program, which was eliminated in the continuing resolution. This cut was particularly painful to responsible homeowners in neighborhoods around the country struggling to keep their homes, and restoring it reflects the President's call to make tough cuts to reduce our deficit without sacrificing the core investments we need to grow our economy.

At the same time, this budget makes a strong commitment to doing more of what works and to stop doing what does not. By including provisions of the Section 8 Voucher Reform Act in the budget, we will simplify and streamline the voucher program and save $1 billion for the taxpayer over the next 5 years while supporting the ability of public housing authorities in small towns and rural areas to better serve the working poor.

Indeed, thanks to Senator Reed's and the Committee's leadership passing the HEARTH Act, the budget funds a new rural housing stability program that reflects the unique and growing needs in those communities. This budget also holds our partners accountable for the funding they have received from HUD. To fully fund the Public Housing Operating Fund, we require public housing authorities with excess reserves to contribute $1 billion. These resources were set aside so that our PHAs could continue operating during a rainy day, and I think we would all agree that rainy day is here.

These efforts point to a commitment expressed through our Transformation Initiative to improving HUD's programs. TI funds are replacing data systems in our largest program, Housing Choice Vouchers, that date from the early 1990s, so we can hold PHAs accountable for managing to their budgets, just like families and businesses are doing across the country. The flexibility TI provides has also allowed us for the first time to offer technical assistance across all our community planning and development programs and launch a new initiative to improve the financial management and accountability of troubled housing authorities. And by support research evaluation and program demonstrations, TI improves HUD's own accountability by identifying what we do well and what we need to do better. These needed reforms allow us to propose increased investment in programs we know work, like the HUD–VASH program for homeless veterans. This effort is built on a solid body of evidence that permanent support of housing both ends homelessness and saves money for the taxpayer by putting an end to the revolving door of emergency rooms, shelters, and jails.

As such, this budget would increase funding for homeless programs by more than 25 percent over 2011 to keep the President's commitment to opening doors, the first Federal strategic plan to end homelessness, which the Administration unveiled last June to end chronic and veteran homelessness by 2015 and homelessness among families and children by 2020.

Our third and final principle for developing this budget is to continue critical initiatives that have been part of our budget for the last 2 years, but in this fiscal climate to propose no new initiatives. The President has made clear that winning the future depends on America winning the race to educate our children, but that is not possible if we are leaving a whole generation of children behind in our poorest neighborhoods. That is why I would like to thank Senator Menendez for working with us on the Choice Neighborhoods Initiative, which was funded in the CR, and we again propose funding in fiscal year 2012. Choice Neighborhoods will allow communities to use the mixed use, mixed finance tools pioneered by Secretaries Jack Kemp and Henry Cisneros with the HOPE IV program to transform all federally assisted housing in a neighborhood.

Similarly, ensuring that America out-builds our competitors requires us to protect and preserve public housing for the future. Right now we are losing 10,000 units from our public housing stock every year. At the same time there are billions of dollars of private capital sitting on the sidelines that could be put to work—that could put tens of thousands of construction workers to work rebuilding this housing. That is why, Mr. Chairman, we have proposed a $200 million demonstration to preserve up to 255,000 public housing units using long-term project-based rental assistance contracts.

As we have seen in the Section 8 program and the low-income housing tax credit, opening up these properties to private capital not only brings new funding to affordable housing, but also a new sense of discipline that extends from the way these properties are financed to the way they are managed.

Last, Chairman Johnson, American businesses large and small cannot out-innovate their competitors when their workers spend 52 cents of every dollar they earn on housing and transportation combined, and moving products on our roads costs 5 times as much wasted fuel and time as it did 25 years ago. That is why we request another $150 million for our Sustainability Communities Initiative, building on funding provided in 2010 and 2011.

Instead of Federal one-size-fits-all rules that tell communities what to do, this initiative is helping regions and communities develop comprehensive housing and transportation plans that create jobs and economic growth. With help from a $3.7 million grant from HUD, Austin, Texas, estimates it will create more than 7,000 permanent jobs, generating an additional $1.1 billion of economic growth over the next 5 years and saving the taxpayer $1.25 billion.

The potential of these innovations explain why the extraordinary demand for our grant program was not just coming from our largest metro areas. Indeed, over half of our regional grants were awarded to rural regions and small towns. And so, Mr. Chairman, HUD's fiscal year 2012 budget proposal is not just about spending less; it is also about investing smarter and more effectively. It is about out-educating, out-building, and out-innovating our competitors. It is about making hard choices to reduce the deficit and putting in place much needed reforms to hold ourselves to a high standard of performance. But most of all, it is about the results we deliver for the people and places who depend on us most.

For HUD, winning the future starts at home, and with this budget I respectfully submit of targeted investments and tough choices, we aim to prove it. Thank you.

Chairman JOHNSON. Thank you, Mr. Secretary.

Would the clerk place 5 minutes on the clock?

As I mentioned earlier, you visited South Dakota with me and saw firsthand the housing challenges facing Indian country. I appreciate your visit and your focus on these needs.

I would like to ask you about the speed of HUD's Indian Housing Block Grant distribution. HUD issued an interim fiscal year 2011 funding notice to tribes on January 27, 2011. At present, many of our tribes have not received the full fiscal year 2011 funding. Some tribes have halted housing development and others have started to eliminate staff.

What is the Department doing to speed up the distribution process to ensure tribes will receive their full allocation of fiscal year 2011 IHBG program funding at the earliest possible moment?

Secretary DONOVAN. Senator, obviously the delay in approving a 2011 budget about half of the way into the fiscal year has had significant impacts not only on tribes but on recipients of HUD funding across all of our programs. We have moved, now that the 2011 budget is in place, to accelerate the way that we are rewarding that funding. In fact, one of the things that we have learned with new processes we have put in place under the Recovery Act, where we are 5 months ahead of targets that we set for distributing the money, as you know, tribes across the country have used that money effectively and quite quickly relative to grants in the past. We have taken the team that developed all of the implementation around the Recovery Act and assigned them to accelerate our regular funding and NOFA processes.

And so we expect to be able to distribute much more quickly this year the Native American Block Grants, and we would be happy to sit down with you and your staff to give you details of exactly when we expect that to happen based on the last few weeks of work that we have done since the budget was resolved.

Chairman JOHNSON. Good. Mr. Secretary, your request includes $88 million for HUD's Housing Counseling Program. As you know, this program was not funded in fiscal year 2011. Is HUD's Housing Counseling Program still an important use of Federal dollars?

Secretary DONOVAN. Absolutely, and I mentioned this specifically in my testimony. What we have seen is that housing counseling has always had a benefit to homeowners, but particularly through this crisis that we have seen, the importance of housing counseling has increased substantially. The Urban Institute recently did a study that showed that homeowners that are in difficult times with their mortgages are 70 percent less likely to be foreclosed on if they receive counseling. We have also seen from other studies that homeowners who purchase homes with counseling are more likely to be successful in being able to stay in those homes.

So this is an investment, given the impact that the housing crisis had on the economy more broadly, given the number of families still struggling to make their payments with unemployment, we think this is absolutely the wrong time to eliminate funding for housing counseling.

I would also note some have said, well, there is a program for NeighborWorks in the budget as well that continued to get funding in 2011. I think the key point here is that that only meets a portion of the needs out there. For example, beyond just the families who are struggling to pay their mortgages, seniors who are interested in using our reverse mortgage program are required to have counseling. That counseling was paid for through HUD's appropriation. There is no other source of funding. And now that expense will fall on seniors.

So we expect that as of October 1 with this cut that there are many agencies around the country that will not be able to provide funding, that there are approximately 70,000 homeowners who we will not be able to reach without the funding in 2011 that we were hoping for. And so it is absolutely critical that in 2012 we restart this funding.

Chairman JOHNSON. While there has been a justifiable focus on the growth of FHA's single-family loan volume, it is often overlooked that FHA's multifamily loan volume has quintupled in recent years. Mr. Secretary, can you describe some of the actions you are taking to ensure the ongoing integrity of the multifamily programs? Also, what does the growth in FHA's volume say to you about the multifamily housing access to capital?

Secretary DONOVAN. I appreciate your asking this question because it is often overlooked, given the crisis that we had in single-family, how important the FHA programs have been to the continuation of the multifamily market, and you are exactly right in terms of the increases that we have seen in our FHA multifamily programs.

We have applied many of the same tools in the multifamily programs that we have on the single-family program. The fact that we appointed FHA's first ever chief risk officer created a whole set of tools to track and monitor the defaults in the FHA portfolio, the delinquencies, and have as a result of that made a number of changes in the underwriting criteria for these programs, changing many, many components of the underwriting terms such as the loan-to-value ratios and a range of other things that have improved the performance of these programs.

What I would note, however, is that unlike on the single-family side, multifamily programs have performed relatively well through the crisis. At the GSEs, the multifamily programs did not contribute to their collapse, and we continue to see even through our most recent numbers the multifamily programs at HUD being profitable. While they are much smaller and do not contribute nearly as much as the single-family side to the $9.8 billion in receipts we expect, net receipts we expect this year, they have continued to be profitable, and they are a critical source. As we have seen rents rise, vacancy rates decline in the rental stock, it is absolutely critical we continue to have a source of financing available as we work our way through this crisis.

Chairman JOHNSON. Senator Shelby.

Senator SHELBY. Thank you, Mr. Chairman.

Secretary Donovan, I like—and we have had these conversations, some of it, before, getting the private access and private capital, because there is a lot more out there.

Secretary DONOVAN. Yes.

Senator SHELBY. And any time we can access capital by putting prime in the pump, putting some money in and, say, accessing two-thirds more or something like that, I think we are making big progress. I think you do, too. Would you expand just a little bit on what you were talking about, the program of getting into the private capital and how you are doing this? I guess in many ways, but——

Secretary DONOVAN. Absolutely. I think public housing is the single most important example of this. Public housing is the only form of affordable housing in the entire country today that has these very difficult barriers to accessing private capital. It is really only in the HOPE VI program and very limited other examples—Choice Neighborhoods—where public housing is able to access low-income housing tax credits, other private capital, and other public capital, as well. And the result of that, as I said in my testimony, is not just that we are losing 10,000 units of public housing a year, but what we also see is that, too often, public housing is cutoff from the neighborhoods that surround it and cutoff from opportunity.

Just to give you an example from my prior life, we tried to bring grocery stores into public housing. We tried to bring new development onto public housing land, mixed-income housing, senior housing that would help those who had raised their kids in public housing and now needed more support in smaller units, and it was like banging our heads against the wall too often, frankly, Senator, to try to bring those tools to public housing.

And so it is time that the Federal Government got out of the way and allowed many of the entrepreneurs in local communities who have, despite some of these restrictions, done some very creative things, to let them do that. That is why we have a proposal, a demonstration in our budget that would allow over 250,000 units through some fairly simple legislative changes to change the way that that land is owned, to allow the deeds of trust to change, and to change the way we fund public housing.

Right now, we supply capital funding and operating funding and we are really the only source of funding that can support those units. By changing it to an operating subsidy, very similar to the way Section 8 works, project-based Section 8 with all other owners, we would allow public housing authorities to be able to access all of these other sources of capital. We estimate there is $25 billion of private capital sitting on the sidelines that could create hundreds of thousands of jobs in construction starting today if we could unlock that capital.

Senator SHELBY. Do you need statutory changes there?

Secretary DONOVAN. We have very limited authority to do this and we are expanding ways that we can do this with existing authority, but it——

Senator SHELBY. Will you give that to this Committee?

Secretary DONOVAN. Absolutely. But we are proposing in the budget a demonstration which would be legislative——

Senator SHELBY. OK.

Secretary DONOVAN. ——that would increase by roughly ten times the number of units that we could reach.

Senator SHELBY. Would you crystalize that and get it to the Committee, if you have not already, and get it at least to me and the Chairman——

Secretary DONOVAN. Absolutely.

Senator SHELBY. Would you do that?

Secretary DONOVAN. Happy to do that.

Senator SHELBY. I want to get into something else, if I could. Cost savings is what we are talking about, trying to do more. According to the Cato Institute, the amount of money we currently spend on subsidizing affordable housing is enough to pay 100 percent of the rent for every family in this country earning less than $22,000 a year. Clearly, some changes could be made to ensure that we are helping the greatest—I think that is your goal—the greatest number of needy families in the most efficient, cost saving manner possible. What steps has HUD taken in this area, to reduce the cost while increasing the efficiency of its housing programs? That is a tough job to turn.

Secretary DONOVAN. Very important, but, look, this is—as a former customer of HUD's, if I could put it that way——

Senator SHELBY. OK.

Secretary DONOVAN. ——I have seen that we have too many programs with conflicting rules. There are too many places where we require housing authorities or owners to comply with or use systems or other things that, frankly, are not efficient. And so I would really point to two things that are critical.

One is we have proposed and have worked with this Committee on a bill we call SEVRA, the Section 8 Voucher Reform Act. And just to give you one specific example, we have, as I said in my testimony, over half of our residents are elderly or people with disabilities. They tend to be on fixed incomes. Eighty-eight percent of them have exactly the same income year after year, and yet we require recertification of 100 percent of our residents each year. SEVRA would allow us on a risk basis to say, well, these are residents who are much more likely to have an income change. We should target them for annual recertification. But others—seniors, for example—we know it is much less likely. So if we go to every 2 years—we have done the analysis—the impact of that is a savings of a couple hundred million dollars alone in 1 year.

Senator SHELBY. That makes sense.

Secretary DONOVAN. So SEVRA, if we could get it passed, either part of the budget process or separately, in a separate bill, and I am hopeful that we could, that is a billion dollars in savings over 5 years, simply by making it easier for folks to run our programs. And it would also in rural areas help us serve more families, working poor families.

Senator SHELBY. Who would be against that improvement? Do you know who——

Secretary DONOVAN. Well, we came very close to getting it done at the end of last year and there seemed to be very broad support——

Senator SHELBY. OK.

Secretary DONOVAN. ——for the provision. There was some argument about, I think, very minor provisions in it, but I would be hopeful we could get that done.

Senator SHELBY. Yes.

Secretary DONOVAN. A second example I would use, we asked for and got flexibility from the Appropriations Committee to invest more in what we call our Transformation Initiative. It is investing in the systems, antifraud systems, fraud detection systems in public housing that will also allow us to save significant dollars, I think, as well.

Senator SHELBY. That is good. One more question. One of the criticisms of our current housing finance system is that it encourages borrowing and accumulation of debt rather than the building of equity. I know that is what we need, is equity. Some scholars have proposed that a better way to encourage responsible home ownership is for the Federal Government to stop subsidizing mortgage rates and instead help potential homeowners build their finances for a down payment. I do not know exactly how that would work, if it did. What is your view of shifting subsidies away from encouraging borrowing and toward programs that help them build equity in their homes? I would have to see the mechanics myself, but that is the concept.

Secretary DONOVAN. I think it is clear from the crisis that we have been through, and we made this very clear in our white paper that we did with Treasury on housing finance reform, that we have spent too much money subsidizing what often did not get to borrowers even because what we did was to have an indirect—an implicit rather than explicit guarantee and did not have a system with Fannie and Freddie that made sure that those benefits made it to the taxpayer. And we support limiting the risk to taxpayers in the future system.

We do think there is a role through FHA for a targeted guarantee. We have a number of proposals of other ways a guarantee might be used to ensure in a crisis that we have adequate financing and that rates remain stable and affordable. But I do think that there is more we could do to shift funding toward building equity.

One proposal that we have, and I know Senator Reed has been a champion of this, is that rather than having the mixed incentives of goals, which did not accomplish what they were intended to do under Fannie and Freddie in too many cases, we have an explicit funding source that would supply down payment assistance and support to rental housing through a dedicated stream of financing. The trust fund, National Housing Trust Fund, was one way to do that under the prior system. We think there needs to be some much more explicit targeted source of support that does not mix incentives the way that the goals did in the prior system.

Senator SHELBY. Thank you, Mr. Chairman.

Chairman JOHNSON. Senator Reed.

Senator REED. Thank you very much, Mr. Chairman, and thank you, Mr. Secretary, for your great leadership.

Secretary DONOVAN. Thank you.

Senator REED. Let me ask you about the Family Self-Sufficiency Program. That is something I note that you have included in your budget. It is something that my local housing advocates think is very, very strong. I know you have one of the great advantages in this job of having been, as you describe it, both a consumer of HUD services, now a provider of HUD services, so you can comment on many perspectives. We are working on a proposal, together with your colleagues, to help improve this program. If you might comment on the proposal and your views of where we should go.

Secretary DONOVAN. Yes. Senator, I want to congratulate you on the proposal. I am a big fan of FSS, or Family Self-Sufficiency, and the reason is it is just a smart approach. Too often, we focus on the short-term and do not think about how our programs can help support self-sufficiency and reach the ultimate goal of families who can work getting jobs, becoming independent, and graduating from the programs, if you will, and making space for those that are on the waiting lists elsewhere. It just makes sense for everyone to do more of that.

The problems, as you have identified, with FSS are that right now, it works in our public housing program. It works in our voucher program. But those programs are completely separate. And we think it makes perfect sense—and this goes to Senator Shelby's point—to combine these programs, reduce the cost of them, and be able to expand the number of families that it reaches. We also think it is a terrific idea to have this reach our multifamily program, as well. Right now, residents of project-based Section 8 are not eligible to participate in FSS, and so we think it makes perfect sense to do this.

We also think, and this is one of the things that our Transformation Initiative is funding, as well, that we have very good anecdotal evidence and some limited studies of the success of FSS. We actually in New York City invested substantially. We raised a lot of private foundation money to expand our FSS program, but also to study it more closely, and we think that if we did more work, which we are proposing to do through our Transformation Initiative, to look at in detail the impacts with greater studies, we could actually demonstrate that this program pays for itself and that we ought to be doing much more of it, expanding it substantially. So I think the proposal is absolutely going in the right direction.

Senator REED. Thank you, Mr. Secretary, and I think also, too, your emphasis on analyzing and ensuring that these are funds that the cost-benefit makes sense, that we are investing but we are also getting much, much more in return. I think that is a key part of what we want to do.

Secretary DONOVAN. Yes.

Senator REED. Let me turn my attention, and again commend you for your increase in the proposed budget for homeless assistance programs. We have had some success in Rhode Island and throughout the country in terms of getting people off the streets, literally, and into some type of structure, some type of facility. But would you take a moment, just from your perspective, why is it still important to invest in these homeless programs.

Secretary DONOVAN. Well, to go back to the point you just made, we have demonstrated that it is more expensive for somebody to live on the street, particularly a chronically homeless person, than it is to house them. It is as simple as that. And this recognition, I think, is growing broadly. Your leadership in the bipartisan passage of the HEARTH Act showed that there is a growing recognition that investing in our homeless programs not only saves lives, it saves money. The fact that in as difficult a budget environment as we have that there was an increase in our homeless programs in the 2011 CR and that we are proposing difficult cuts in many programs but a significant increase in our homeless programs in 2012 demonstrates that we really have shown that these programs work.

Now, the issue I would point to, with the 2011 funding, there was a small increase. That will not allow us to implement the HEARTH Act fully. We will implement one portion of it, but just to give you an example, there was a very important new rural homelessness program that was created in the HEARTH Act. There is not adequate funding to fund that in 2011. And so making sure that after all of the work that was done, almost a decade of work, as you know very directly, to create the HEARTH Act, it is critical that we find ways to ensure that we can fund the pieces of it because it makes so much sense. It consolidates many of the programs, streamlines them. It will lower administrative costs for HUD, but also help tens of thousands of families.

And I would just last say, as you know, with veterans in this country 50 percent more likely to be homeless than average Americans, the commitment the President made to ending veterans' homelessness by 2015, we think, is absolutely critical, and the VASH vouchers are an important part of that, as well.

Senator REED. I think you are absolutely right. One of the examples that helped prompt me to work on this effort was the testimony that Senator Burr and I took at a hearing of a North Carolina housing advocate describing how two or three veterans were living basically behind a bicycle rack in Durham or one of the communities—one of the rural communities—again, that is where the university is, also, but it is not a big metropolis. It is a place where this program could be effective and should be effective. We cannot lose sight of the rural homelessness. I think that is important.

Let me turn to another topic, and that is Chairman Johnson, Senator Shelby, and I all worked on legislation that ultimately produced—one aspect of it was the National Housing Trust Fund. We originally thought we were going to fund it with the proceeds of the GSEs. That is not an option at this moment. So we are working to try to tap into some of the profits that have been generated through the warrants that, again, working together on this Committee, we insisted be part of the legislation which supported the banks over the last several years. And we have actually recouped about $9 billion in pure profit. In addition to the preferred dividends that we are paying when we sold the warrants, we picked up $9 billion, just as, I think, they would have done if they were lending the money to us. That is one source. But to the larger issue of why it is important to get this National Housing Trust Fund off the ground, from your perspective.

Secretary DONOVAN. At a time—and I think many people miss this. As we have seen the housing crisis develop, in many communities, we have excess units, vacant units, over-building in some areas. At the same time, throughout the entire crisis, for low- and moderate-income renters, their burden increased. Rents went up at the low end of the scale. Between 2007 and 2009, we saw a 20 percent increase, in just 2 years, in worst-case housing needs, the biggest increase we had recorded in the history of the survey.

And so there is no question that while the trust fund was critical before this housing crisis hit, it is absolutely essential now, given what we have seen. And so that is why, again, in a very difficult budget, the President proposed a billion dollars to initially capitalize the trust fund, and in the long term, we believe, as I said earlier, that one critical part of housing finance reform is that we find a long-term source.

We set up a trust fund locally. Thousands of communities have done this around the country, and the key there is that by having a dedicated stream of funding that is not dependent on appropriations, as the original trust fund would have been, it ensures a consistent source of that funding that can really be generated year after year.

Senator REED. Well, thank you, Mr. Secretary. And again, let me just say, our experience in Rhode Island is that in these low to moderate rentals, the price over the last several years has gone up 45 percent. So one of the terrible ironies over the last few years is in the worst housing collapse, where residential home prices were falling, rental property prices, because people need some places to have going up, and this Housing Trust Fund would provide affordable rental housing and do it in a consistent way, as you pointed out. I think it is absolutely important.

Just a final question. This goes to the issue which has been plaguing all of us for 2-plus years now, and that is the foreclosures, the failure to take effective comprehensive action. I am encouraged that servicing guidelines have been released, updated, that some steps have been taken, that the servicers have invested more resources into doing this. But what is still absolutely difficult to explain and for the average person not just frustrating, but almost on the verge of being deliberately provocative and disruptive of their whole lives, is this dual tracking of foreclosure modification.

And I would point out that the South Carolina Supreme Court just ruled a few days ago, suspended all foreclosures in South Carolina for the reason of this dual tracking, and that has been done, I am told, also by New York and Connecticut. So this is not a localized problem and it is not one of these classic problems of, well, it is a blue problem, red problem, *et cetera*. When you have got the eminent justices of the South Carolina court saying this is so offensive to the basic legal rights and rights of our citizens that we are going to order banks not to foreclose until they have cleaned this up, we have got to do something nationally.

Secretary DONOVAN. Yes.

Senator REED. And I must, because I was frustrated by the settlement agreed to by the Federal banking regulators. I know you were participating in those discussions. So in this whole topic of foreclosure, the dual tracking, the modification, I would just like your comments and your opinions of what we can do.

Secretary DONOVAN. Yes. Let me start by saying, broadly, we take a broad set of steps on this that have made a difference. The fact is that the number of people entering foreclosure today is down about 40 percent from where it was a year ago. We think that there would have been probably twice as many foreclosures, actual foreclosures over the last 2 years if we had not acted in the way that we did.

But I will also be honest that we have been frustrated, too, in terms of those steps not going as far as we had expected or would have liked, and part of the reason for that has been the difficulties in the servicers actually implementing and being able to help folks that by all means in the programs should have been helped.

And so just specifically on the settlement that you described, we have been and continue to coordinate with the regulators. To be clear, their decision requires plans from the individual institutions within 60 days. There is nothing in those requirements that conflicts with the ongoing discussions that we are having with the banks. And specifically on this issue of dual tracking and other servicing standards, we are very much agreed that there need to be stronger consistent standards, including on dual track.

And there really, if I may, there are dual tracks that we are pursuing on that in the short term, through the settlement for the institutions that would be participating there, to make sure that they fix those processes. But in the long term, as we said in our housing finance reform proposal, having clear, consistent servicing standards that cover everyone who is servicing mortgages is absolutely critical, and that is something that we have begun the work on longer term, establishing principles around that and then beginning to work out the details of that.

I would just say, it is in everyone's interest to do this. There are homeowners and communities that have suffered. There are financial institutions that have suffered because they have not taken common sense steps where it makes sense and it is in everyone's financial interest to reduce balances to modify loans. That has not happened because of all the conflicting and confusing morass of issues around the way that particularly these securitized loans have been serviced. And so clear standards about pooling and servicing agreements and all of the other steps here will benefit everyone if we can get there.

Senator REED. Thank you, Mr. Chairman. Thank you, Secretary.

Chairman JOHNSON. Senator Merkley.

Senator MERKLEY. Thank you very much, Mr. Chair, and thank you, Mr. Secretary, for your testimony today.

I certainly echo the thoughts of my colleague from Rhode Island that it has been extremely disappointing to see how incredibly slow the action has been to address even these fundamental issues of process, the single point of contact, the dual track, and this recent settlement was basically along the lines of continuing to cheerlead and say, this is the right thing to do, please, please, please do it, as opposed to anything that actually takes us down the path. We have been cheerleading for a year and a half and seeing virtually no results on the ground. People coming in the door today to my office are not telling a different story than they had a year ago in terms of the complete insanity of reaching a different person every time they make contact, still having their files lost repeatedly, so on and so forth. For a long time, we have been hearing results are around the corner. We have not seen them.

I want to turn to the issue of the qualified residential mortgage process and the proposed 20 percent down payment requirement. There is a lot of concern in the housing world that this will create a two-tiered system. I suspect you could survey my entire community of working class families where I live or any similar communities around the country and you would be hard pressed to find a single family that bought their first house with a 20 percent down payment, unless they happened to inherit money or won the lottery or something of that nature. It would be one out of 100, at best.

Do you have any sense right now what the point spread is on the difference between, other things equal, between somebody putting down 5 percent and putting down 20 percent?

Secretary DONOVAN. I am sorry. The point spread, you mean——

Senator MERKLEY. In terms of the APR of a 30-year amortizing mortgage.

Secretary DONOVAN. Well, given that FHA continues to operate and provide low-cost financing for low down payments, we continue to be able to have a relatively affordable low down payment option available. But I think outside of FHA, that spread has been pretty substantial. I have not looked at it in the last day or two, but it has widened dramatically as we have come through the crisis, and I think it would be in excess of a point, my expectation would be.

Senator MERKLEY. You know, I have had a lot of conversations with people on the ground who have worked with families, and I am adding to that my own experience working through Habitat for Humanity and then developing affordable housing. And the collective impression is that a small down payment rarely drove the risk of foreclosure, and for a couple of reasons. One is simply that—and I am talking about the pre-2003 mortgage market, before the Fed's failure to regulate the predatory teaser rate mortgages, the doubling of interest rate, the exploding interest rate mortgages. Before that set the foundation for this entire meltdown, there was fairly steady appreciation in housing prices. And folks who were renting, if they could come up with a down payment, in a few years they had some significant equity, and they found themselves far better off in terms of stability and financial foundation than those who continued to rent. And they had huge incentives to hold onto their house as a point of great pride and stability for their family and the primary wealth-building aspect of their life.

Things become quite different when you introduce the predatory mortgages and the balloon in housing values that was driven by the teaser rate mortgages.

But take that away because we are not going back down the path. We have now, thankfully, outlawed the undocumented loans. We have outlawed the prepayment penalties. We have outlawed the steering payments that drove the originators to steer people into those subprimes, all that. So we are trying to reclaim the standard amortizing mortgage as the wealth-building instrument that it has been since it was invented following the Great Depression.

So there is tremendous concern about the possibility of the QRM and a 20-percent down payment requirement driving a two-tiered market to the disadvantage and unreasonable disadvantage of folks who are in no position to provide a 20-percent down payment.

I just thought I was try to get your thoughts on that.

Secretary DONOVAN. It is a very important question, and in my mind I think it is important to state up front there is no question that down payment is one piece of what helps predict the performance of loans and the risk. And we certainly saw through the crisis, as I think you acknowledged, that we went too far. We have seen in the FHA portfolio, whether it is seller-funded down payments or other loans that were effectively 100 percent LTV that their performance was significantly worse, even controlling for other factors.

But I think the issue here is both the one you raise, which I think is very important, which is access. We have to balance thinking about the importance of making sure a range of middle-class families, low-income families continue—if they can afford to be homeowners and they are prepared to be homeowners, that they continue to have access, because down payment is the single most important barrier. We need to balance that against safety and soundness.

But I think the other point that I would make is that we should not lose sight of the fact that down payment is only one element of evaluating risk, and what really got us into trouble was the layering of risk between down payment and a whole range of other factors. And so when we put out the proposed QRM rule—and I would emphasize it is proposed. We have made no final decisions. We are very interested in comments. We did put in the preamble an alternative to the 20 percent that was at 10 percent that is really inviting comment of exactly the kind that you are making, of what should that balance be and what other factors should we take into account. Should mortgage insurance or other types of risk retention be able to compensate for that? How exactly do we make these pieces work? Because it is not as simple as saying we really should just look at loan to value and ignore the other components of the layering of risk.

Senator MERKLEY. Yes. Everything I have seen shows a very small discrepancy before we allowed the predatory mortgages in 2003, and within the fully amortizing world, certainly amounting to less than a basis point. And I want to reemphasize this point of taking the wrong lesson out of this crisis. The lesson was you do not allow kickbacks to loan originators. You do not allow undocumented loans. You do not allow teaser rates with huge prepayment penalties to lock people into them. Because in that setting you will drive a balloon, and when that balloon breaks, it will matter how much down payment you have. So there needs to be some skin in the game, but putting a very large premium on it would be a misreading of the experience that we have had over the last 20 years in mortgages. So I just want to emphasize that thought.

There was just a study that came out because of the new census of northeast Portland, which was a poor area of Portland, an area I used to work in, and where there was massive out-migration of impoverished families. And the main finding was that it was the failure of the city to work—and I say the city because it was kind of related to city policy, but it reverberates in the broader housing world—to try to tackle the down payment problem.

While I was working there, we created an organization called Project Downpayment specifically to try to tackle this, but raising the money to assist in that was very slow and very difficult and few families were stabilized. But those who were stabilized, their homes went from, say, $60,000 to now $360,000. You know, they have enormous equity because they became homeowners and they got to participate in the American dream, and in a way that you can never get to through renting. I am substantially over my time, so I will just say I would love to follow up on the SHOP program, the Self-Help Opportunity Program. It has been moved in your budget into the home line, and it is not clear what that means for its future. And I think it has been a substantial factor in encouraging the type of fundamentally fair sweat equity strategies that have empowered a tremendous number of families that would never have otherwise been homeowners.

Chairman JOHNSON. Thank you, Senator Merkley.

Thank you, Mr. Secretary, for your testimony. I look forward to working with you and the Committee to ensure that HUD programs can effectively meet the needs of our families and communities.

This hearing is adjourned.

[Whereupon, at 11:06 a.m., the hearing was adjourned.]

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

PREPARED STATEMENT OF CHAIRMAN TIM JOHNSON

I am pleased to once again welcome HUD Secretary Shaun Donovan to the Committee to discuss the Administration's budget request and HUD's legislative agenda. Secretary Donovan, you come to us at a challenging time. Our families and our State and local government partners continue to struggle during this economic downturn.

HUD administers programs that aim to provide access to quality, affordable, and safe housing for homeowners and renters. These programs often provide a needed lifeline to our most vulnerable citizens, and in today's economy they are more important than ever.

Far too many American families and communities still face the threat of foreclosure, and millions more have seen their property values fall in a fragile housing market.

And, although it may seem counterintuitive, housing has become less affordable for lower-income families even as housing values have plummeted. Recent studies by your Department have shown dramatic increases in "worst-case" housing needs among very-low income renters and even homelessness among families. As you saw during your visit to South Dakota last year, many tribal communities continue to struggle with a shortage of economic opportunities and a lack of housing choices.

As our need for affordable housing rises, HUD and local providers face increasing difficulties in preserving the resources we have, due to aging buildings and expiring affordability contracts.

Meanwhile, States and local governments are slashing services and job-creating investments.

As the country faces these daunting challenges, the Federal Government must ensure that we make wise investments and preserve important programs that help those most in need.

At the same time we must also be mindful of our budget constraints and be certain that we get the most value for our dollar. These times make the effective use of Federal housing and community development resources all the more important.

As you have said, you have made a number of hard choices in your FY2012 budget, cutting funding for several programs that you otherwise support in order to meet fiscal goals. I am concerned—as you may be—that a number of these cuts could halt our progress in addressing the needs of vulnerable citizens.

But your budget also contains a number of proposals intended to increase HUD's effectiveness, including those to:

- improve HUD's administration and oversight of $48 billion in programs;
- strengthen the management and financial standing of the FHA insurance programs as they provide critical countercyclical financing to the housing market;
- empower communities;
- provide new tools to help create and preserve public and assisted housing; and
- streamline our public housing and Section 8 programs to make them more effective for grantees and families.

HUD provides vital resources for millions of Americans who struggle to meet one of our most basic needs—a safe place to live. As we continue to debate the budget and tackle the deficit, we cannot afford to leave Americans out in the cold. I look forward to our discussion of your proposals during today's hearing.

PREPARED STATEMENT OF SHAUN DONOVAN

SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

MAY 5, 2011

Chairman Johnson, Ranking Member Shelby, and Members of the Committee, thank you for the opportunity to testify today regarding the fiscal year 2012 Budget for the Department of Housing and Urban Development, Creating Strong, Sustainable, Inclusive Communities and Quality Affordable Homes.

I appear before you to discuss this Budget in an economic environment that is significantly improved from when the President took office. An economy that was shrinking is growing again—and instead of rapid job loss, more than a million private sector jobs were created in the last year. But we know there's still more work to be done to ensure that America and its workers can compete and win in the 21st century. And we have to take responsibility for our deficit, by investing in what makes America stronger and cutting what doesn't, and in some cases making reductions in programs that have been successful.

HUD's Fiscal Year 2012 budget tackles these challenges head on: by helping responsible families at risk of losing their homes and by providing quality affordable rental housing; by transforming neighborhoods of poverty to ensure we are not leaving a whole generation of our children behind in our poorest communities; by rebuilding the national resource that is our federally assisted public housing stock and ensuring that its tenants are part of the mobile, skilled workforce our new global economy requires, and by leveraging private sector investments in communities to create jobs and generate the economic growth we need to out-innovate, out-educate, and out-build the rest of the world.

This budget also reflects the need to ensure that we are taking responsibility for our country's deficits. As a down payment toward reducing the deficit, the President has proposed a freeze on nonsecurity discretionary spending for the next 5 years, cutting the deficit by $400 billion over 10 years and bringing this spending to the lowest share of the economy since President Eisenhower. Every department shares a responsibility to make tough cuts so there's room for investments to speed economic growth. HUD's fiscal year 2012 budget includes $47.8 billion in gross budget authority, offset by $6 billion in projected FHA and Ginnie Mae receipts credited to HUD's appropriations accounts, leaving net budget authority of $41.7 billion, or 2.8 percent below the fiscal year 2010 actual level of $42.9 billion. [1] To maintain this commitment to fiscal discipline, we have protected existing residents and made the difficult choice to reduce funding for new units and projects, including cuts to the Community Development Block Grant, HOME Investment Partnerships, and new construction components of the Supportive Housing Programs for the Elderly (Section 202) and Disabled (Section 811).

And because winning the future also means reforming Government so it's leaner, more transparent, and ready for the 21st century, we are also reforming the administrative infrastructure that oversees those programs. The Budget includes key provisions from the Section 8 Voucher Reform Act (SEVRA) legislative proposal that will simplify and rationalize the rent setting provisions of our three largest rental assistance program. The budget requests for Housing Choice Vouchers, Project-Based Rental Assistance, and Public Housing reflects a savings of about $150 million in the first full year and would yield over $1 billion in savings over the next half decade. Additionally, the Transformation Initiative—important funding and programmatic flexibility Congress provided in 2010 and 2011—will enable the Department to offer cutting edge technical assistance that improves the management and accountability of local partners, and conduct the kinds of research and demonstrations that ensure that we are funding what works and identifying what doesn't and what we need to do better.

Responding to the Crisis

Much has happened in the 2 years since HUD submitted its fiscal year 2010 budget. Only weeks before, the Bush administration and Congress had taken dramatic steps to prevent the financial meltdown, the Nation was losing 753,000 jobs a month, our economy had shed jobs for 22 straight months and house prices had declined for 30 straight months.

In the face of an economic crisis that experts across the political spectrum predicted could turn into the next Great Depression, the Obama administration had no choice but to step in aggressively. The Federal Reserve and Treasury helped keep mortgage interest rates at record lows. Because low interest rates only matter if there are mortgages available at those rates, the Administration also provided critical support for Fannie Mae and Freddie Mac, while HUD's Federal Housing Administration (FHA) stepped in to play its critical countercyclical role in helping to stabilize the housing market. The Administration proposed, and Congress enacted, a homebuyer tax credit to spur demand in the devastated housing sector. And we took steps to help families keep their homes—through mortgage modifications and FHA's loss mitigation efforts.

The results of these extraordinary but necessary actions are clear. Since April of 2009, record low mortgage rates have helped nearly 10 million homeowners to refinance, resulting in more than $18.8 billion in total borrower savings. More than 4.5 million modification arrangements were started between April 2009 and the end of March 2011—including more than 1.5 million HAMP trial modification starts, more than 808,000 FHA loss mitigation and early delinquency interventions, and nearly 2.2 million proprietary modifications under HOPE Now. While some homeowners may have received help from more than one program, the number of agreements

[1] Such an estimate is not yet available for comparison to the fiscal year 2011 budget just enacted. Receipts will be reestimated at the close of the fiscal year.

offered was more than double the number of foreclosure completions for the same period (1.9 million).

The private sector has now created jobs for 13 straight months.

HUD's careful and effective stewardship of $13.61 billion in American Recovery and Reinvestment Act (ARRA) funding has been essential to economic recovery. To date, HUD has obligated 99.6 percent of its ARRA grant and loan funds and expended over 63.5 percent of this funding—more than 5 months ahead of the aggressive timelines the Administration set down and to which the Vice President has held every Department accountable. These funds have led to the development and renovation of over 400,000 homes (Public Housing Capital Fund, Native American Housing Block Grant, Tax Credit Assistance Program, Community Development Block Grant, Lead Hazard Reduction, and Healthy Homes grants). Through homelessness prevention assistance (Homelessness Prevention and Rapid Re-Housing Program/HPRP), local partners have prevented or ended homelessness for more than 900,000 people. Lastly, through the Lead Hazard Reduction and the Healthy Homes programs, over 3,800 children have been protected from lead paint-based hazards and other home health and safety risks. As a result of these activities, in the third quarter of calendar year 2010 alone, HUD ARRA recipients reported over 31,000 jobs saved or created.

Winning the Future

Now, having prevented our economy from falling into a second Great Depression, the Administration is focused on ensuring that America wins the future by making strategic investments in our communities, and also taking responsibility for our deficit For HUD, that meant using three core principles to develop our budget:

1. Continuing to provide critical support for the housing market while bringing private capital back into the market;
2. Protecting current residents—and improving the programs that serve them; and
3. Investing in initiatives that are critical to winning the future.

As such, the Department's budget for fiscal year 2012 follows the roadmap the President has laid out for keeping America at the forefront of the rapidly changing global economy. Specifically, this budget helps America:

Out-Educate. America cannot out-educate the rest of the world if a lack of quality, affordable housing prevents Americans from accessing good schools in safe neighborhoods, or if homelessness threatens the schooling of a young child. That is why the budget continues to support the Choice Neighborhoods initiative (which links HUD's investments in housing to education funding provided through the Department of Education's Promise Neighborhoods initiative), and proposes to target housing vouchers—coupled with educational and other supportive services—to homeless and at-risk families with school age children.

Out-Innovate. A clean energy economy is vital for America to compete in the new century. Through the Recovery Act's dramatic investments to green America's housing stock, HUD will improve the efficiency of 245,000 HUD-assisted affordable homes, provide comprehensive energy retrofits that will reduce energy costs by as much as 40 percent in an additional 35,000 public housing units, and complete green retrofits of 19,000 units of privately owned, federally assisted multifamily housing. The funding in this budget will continue to improve energy efficiency and save money for the taxpayer by allowing us to track and monitor energy use in our portfolio while we work more closely with the private sector to scale up energy retrofits that pay for themselves through loan products like the FHA PowerSaver and expanded FHA risk sharing. In addition, we will continue to partner with the Department of Energy to leverage weatherization assistance funds for many of these properties.

Out-Build. The President's focus on repairing our existing infrastructure and building new ways to move people, goods, and information will not only put people to work now, but also spur investments that build a stronger economy. Building on the successful Partnership for Sustainable Communities with the Department of Transportation and the Environmental Protection Agency, HUD's budget includes $150 million to create incentives for communities to develop comprehensive housing and transportation plans that aim to help regions and communities approach their infrastructure investments in a smarter and more strategic way and reduce the combined cost of housing and transportation for families. Just as we cannot compete in the new economy if we fail to rebuild our highways and transit systems, nor can we ignore the importance of affordable housing in communities. For this reason, the budget proposes a $200 million rental assistance demonstration to rehabilitate—cost-effectively—some of our most valuable affordable housing assets: America's federally subsidized affordable housing stock. We estimate that this proposal will leverage $7 billion in private debt and equity capital and, in the process, support significant job creation in communities across the country.

Reform Government So That It's Leaner, Smarter, More Transparent, and Ready for the 21st Century. President Obama said in his State of the Union address that removing overlapping and contradictory rules and regulations is essential to generating economic growth. That's why we continue to make it our focus to improve and simplify the way HUD works with other agencies. The level of interagency cooperation with both our Federal and nonfederal partners is unprecedented—from the Sustainable Communities Partnership (discussed above) to initiatives targeting housing and services to the homeless (with the Department of Health and Human Services and the Department of Education) to a multi-agency economic development initiative that includes participation from HHS, HUD, the Economic Development Administration in the Department of Commerce, the Departments of Education, Energy, and Transportation, among others. That Department with support from HUD and other partner agencies is committed to removing barriers to local innovation at the Federal level. Through our Transformation Initiative, HUD can continue to deliver the kind of cutting edge technical assistance and research that our local stakeholders are seeking to innovate and grow their economies and is critical to improving the management and accountability of HUD's local partners. Indeed, this improved partnership with local stakeholders also means holding them accountable for their use of Federal resources. As noted, the Transformation Initiative is already supporting research and demonstrations that will allow the Department to closely monitor local strategies for expending taxpayers' money. And through the newly instituted HUDStat internal reporting system (discussed further below), the Department is holding itself accountable for the funds it invests.

Meeting Our Responsibilities

The need for HUD's investments is clear. The devastating effect that the economic downturn has had on the housing circumstances of poor Americans was underscored in early February, when HUD released its Worst Case Housing Needs study results. HUD defines worst case needs as: renters with very low incomes who do not receive Government housing assistance and who either pay more than half their income for rent, live in severely inadequate conditions, or both. The report showed an increase of 20 percent in worst case needs renters between 2007 and 2009. This is the largest increase in worst case housing needs in the quarter-century history of the survey, and caps an increase of 42 percent since 2001. These numbers show the scale of the challenge inherited by the Obama administration, with a historic increase in need during the 2 years before we took office. Indeed, the critical housing assistance offered by HUD through the Recovery Act is a key part of HUD's response to this challenge.

In short, this Budget will achieve substantial results not only for vulnerable, low-income Americans but also for hard-hit local and State economies across the country. Its carefully targeted investments will enable HUD programs to: house almost 2.5 million families in public and assisted housing (over 60 percent elderly and/or disabled); provide tenant-based vouchers to more than 2.2 million households (over 45 percent elderly and/or disabled), an increase of over 86,000 from 2010; and nearly double the annual rate at which HUD assistance creates new permanent supportive housing for the homeless.

As in fiscal year 2011, HUD's fiscal year 2012 budget is structured around the five overarching goals the Department adopted in its Strategic Plan 2010–2015. These goals reflect the Department's—and my—commitment to "moving the needle" on some of the most fundamental challenges facing America as we try to win the future. Indeed, every month, I hold HUDStat meetings on one or more of these goals, to assess progress and troubleshoot problems in order to: (1) ensure that HUD is as streamlined and effective as possible in the way that we administer our own programs and partner with other Federal agencies; and (2) hold our grantees accountable for their expenditure of taxpayers' hard-earned dollars.

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

We project that FHA will continue to support the housing market, insuring $218 billion in mortgage borrowing in 2012. These guarantees will support new home purchases and refinanced mortgages that significantly reduce borrower payments. Over the last 2 years, FHA has helped over 2 million families buy a home—80 percent of whom were first-time buyers. FHA also has helped nearly 1.5 million existing homeowners refinance into stable, affordable products, with average monthly savings exceeding $100. FHA financing was used by 31 percent of all homebuyers, insuring, along with the VA and Federal farm programs, 81 percent of all loans to African Americans and 73 percent to Hispanics in 2011. But FHA is also a vital resource for homeowners facing foreclosure. FHA's loss mitigation program minimizes the risk that financially struggling borrowers go into foreclosure. Since the start of the mortgage crisis, as mentioned above, these FHA efforts have assisted more than 650,000 homeowners.

Paving the Way for Private Capital To Return

It is critical, however, that we pave the way toward a robust private mortgage market. This was a central goal of the Administration's recently released report on Reforming America's Housing Finance Market, which proposed to wind down Fannie Mae and Freddie Mac, fix fundamental flaws in the mortgage markets, better target the Government's support for affordable housing, and provide choices for longer-term reforms.

Taking steps to bring private capital back is a process that HUD began many months ago—and I want to thank you for passing legislation in the last Congress to provide more flexibility to FHA's mortgage insurance premium structure. With this authority, FHA announced a premium increase of 25 basis points in February.

Indeed, FHA has already taken significant steps to facilitate the return of private capital, making the most sweeping combination of reforms to credit policy, risk management, lender enforcement, and consumer protection in FHA history. These reforms have strengthened its financial condition and minimized risk to taxpayers, while allowing FHA to continue fulfilling our mission of providing responsible access to home ownership for first-time homebuyers and in underserved markets.

FHA implemented a "two-step" credit score policy for FHA purchase borrowers. Purchase borrowers with credit scores below 580 are now required to contribute a minimum down payment of 10 percent. Only those with stronger credit scores are eligible for FHA-insured mortgages with the minimum 3.5 percent down payment.

The goal of these reforms is to balance the need to provide access to our mortgage markets with the need to protect taxpayers from financial risk. That's also why in October of 2009, we hired the first Chief Risk Officer in the organization's 75 year history—and last July, FHA received Congressional approval to formally establish this position and create a permanent risk management office within FHA, for which the Risk Officer position is now designated as a Deputy Assistant Secretary. Robert Ryan, the current holder of that position, is also currently serving as acting FHA Commissioner. With this new office and additional staffing, FHA is expanding its capacity to assess financial and operational risk, perform more sophisticated data analysis, and respond to market developments.

Further, FHA has strengthened credit and risk controls—toughening requirements on FHA's Streamlined Refinance program, making several improvements to the appraisal process and to condominium policies, and implementing the two-step credit score policy discussed above. We are very grateful for the support that Congress has provided with our efforts to reduce fraud and risk. Through the $20 million Combating Mortgage Fraud funds that Congress granted HUD in FY2010, we have already begun to implement several risk management and systems modernization reforms to incorporate modern risk and fraud tools and counterparty data consolidation.

Additionally, FHA introduced policy changes and improved lender oversight and enforcement to increase the quality of FHA insured loans. In April 2010, we published a rule eliminating FHA approval for loan correspondents and increasing net worth requirements for lenders, thereby strengthening FHA's counterparty risk management capabilities.

As a result of these actions, FHA finds itself in a stronger position today. In particular:

- The quality of loans made in 2009 and 2010—the years FHA has done the most significant volume—is much improved. FY2010 is the highest quality FHA book-of-business on record.
- Credit score distribution continues to be significantly improved. The average credit score on current insurance endorsements has risen to nearly 700. And for the second straight quarter, average credit scores are equal across refinance and purchase books of business.
- Loan performance, as measured by early period delinquency and seasonally adjusted serious delinquency rates, continues to show significant improvement. [2]

[2] HUD's Annual Report to Congress Regarding the Financial Status of the FHA Mutual Mortgage Insurance Fund FY2010 can be found at *http://www.hud.gov/offices/hsg/rmra/oe/rpts/actr/2010actr_subltr.pdf.*

The Department is equally focused on assisting consumers throughout the homeownership process, from increasing their knowledge of the mortgage products they are considering to protecting them from fraud in any phase of that process. Accordingly, the budget also includes $168 million for housing and homeowner counseling through HUD and the Neighborhood Reinvestment Corporation (NeighborWorks). Over 4 million households have benefited from housing counseling since April 2009.

Goal 2: Meet the Need for Quality, Affordable Rental Homes

With more than one-third of all American families renting their homes, it remains more important than ever to provide a sufficient supply of affordable rental homes for low-income families.

Why HUD Investments Are Vital

While the median income of American families today is over $60,000, families who live in HUD-assisted housing have a median income of $10,200 per year—and more than half are elderly or disabled. The extraordinary vulnerability of residents in HUD-assisted programs is why we have chosen to protect the funding that houses these families. Indeed, fully 80 percent of our proposed budget keeps current residents in their homes and provides basic upkeep to public housing while also continuing to serve our most vulnerable populations through our homeless programs.

HUD's 2012 budget requests $19.2 billion for the Housing Choice Voucher program to help more than 2 million extremely low-to low-income families with rental assistance live in decent, safe housing in neighborhoods of their choice. The budget funds all existing mainstream vouchers and provides new vouchers targeted to homeless veterans, families, and the chronically homeless. The Administration remains committed to working with the Congress to improve the management and budgeting for the Housing Choice Voucher program, including reducing inefficiencies, and reallocating Public Housing Authority voucher reserves based on need and performance.

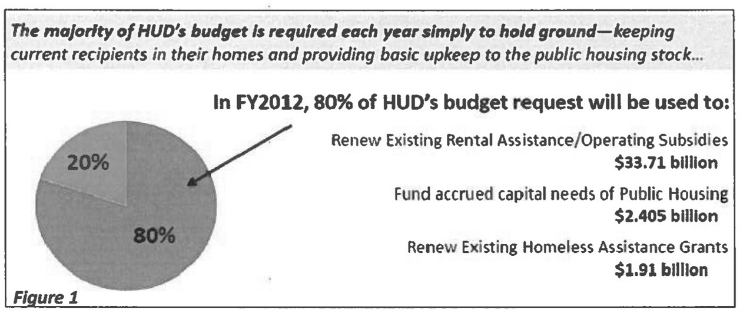

Figure 1

The Budget also provides $9.4 billion for Project-Based Rental Assistance to preserve approximately 1.3 million affordable units through increased funding for contracts with private owners of multifamily properties. This critical investment will help extremely low-to low-income households to obtain or retain decent, safe, and sanitary housing. Similarly, in combination with full funding of the Public Housing Operating Fund,[3] the $2.4 billion requested for the Capital Fund will help to preserve the over 1 million units within that program's portfolio.

[3] $1 billion of the amount needed to fully fund the Operating Fund at $4.962 billion represents excess reserves held by PHAs, which have grown substantially over the past several years. The Department will ensure that PHAs have sufficient remaining reserves to stay on sound financial footing.

Tough Choices:
Putting Excess Public Housing Operating Fund Reserves to Work

This Budget also holds our partners accountable for the funding they have received from HUD. Indeed, while the growing need demonstrated by the *Worst Case Housing Needs* survey clearly justifies fully funding the Public Housing Operating Fund at $4.96 billion, we are requiring public housing authorities (PHAs) to contribute a total of $1 billion from their excess reserves. Many PHAs have set aside these reserves so that they could continue to effectively manage and operate public housing properties during a rainy day – and it is clear that rainy day is here.

Out-Building Our Competitors: Rebuilding Our Nation's Affordable Housing Stock

The preservation of critically needed "hard units" of rental housing in this country is among our top priorities, particularly as the number of renter households with severe affordability issues has increased significantly in recent years. Our preservation agenda includes regulatory and administrative changes to make it easier for owners to preserve HUD-assisted housing as well as creating tools that will put the Department's stock of affordable housing on sound financial and regulatory footing for the long-term. To this end, the Budget includes $200 million for a demonstration and rigorous evaluation of the conversion of up to 255,000 public housing units to some form of long-term project-based rental assistance contracts that will enable PHAs to leverage private debt and equity capital to make repairs. Through similar conversions, the demonstration will preserve 7,600 privately owned, HUD-assisted units in so-called "orphan" programs at risk of leaving the affordable housing stock. This funding request will allow us, working with key stakeholders, to develop new preservation tools to help ensure that we protect our affordable rental housing stock.

The President's Budget also includes two revenue proposals to reform the Low Income Housing Tax Credit (LIHTC) that will complement the Department's overall preservation agenda:

- Replace the current cap on household income at 60 percent of area median income with the option that properties serve households whose average income is no greater than 60 percent of AMI and with no individual household above 80 percent of AMI. These changes to the low-income occupancy threshold requirements will accomplish three things: (i) allow greater income-mixing at the project level, creating opportunities for workforce housing; (ii) help align LIHTC with HUD's and USDA's affordable housing programs (which define low-income at 80 percent of area median income); and (iii) lead to the creation of more units targeted to the lowest income households. [4]
- Make the 4 percent credit a more viable source of funding for the preservation of the Federal affordable housing stock by allowing allocating agencies to give a limited number of qualifying properties a 30 percent basis boost in the context of preserving, recapitalizing, and rehabilitating existing affordable housing, including housing targeted by our rental assistance demonstration as well as other programs. This means that a greater amount of equity could be raised per credit even at the higher yields required by investors for 4 percent investments, which in turn will generate more interest in LIHTC preservation deals within the investor and developer community.

Finally, the Budget once again calls for funding of the National Housing Trust Fund (NHTF) at $1 billion. The recent Worst Case Housing Needs report underscores the reality that, since well before the recent recession, extremely low income renters (those whose household incomes are below 30 percent of median) face the most severe housing shortage and cost burden of any Americans. In addition, the report shows that for renters below 30 percent of area median income, the shortage of affordable and available units increased from 5.2 million to 6.4 million from 2007 to 2009, with just 36 affordable and available units per 100 extremely low income renters in 2009, down from 44 units just 2 years prior. Enacted in 2008, the NHTF was designed to provide capital resources to build and rehabilitate housing to fill this precise—and growing—gap in the Nation's rental housing market. The Administration wants to work with Congress to provide this crucial funding.

[4] It is important to note that this income averaging proposal would increase our ability to preserve HUD-assisted properties. 69,224 households living in public housing and 23,271 households in multifamily housing have incomes above 60 percent of AMI. This proposal allows these units to be counted in basis, increasing the equity flowing to these projects for preservation.

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

HUD, as well as State and local policy makers and our private sector partners recognize that stable, affordable housing provides an ideal, cost-effective place to deliver healthcare and other social services focused on improving life outcomes for individuals and families.

Out-Innovating: Solving Homelessness, Saving the Taxpayer Money

Nowhere is this clearer than in the successful efforts in communities around the country to address homelessness. These efforts have yielded a substantial body of research, which demonstrates that providing permanent supportive housing to chronically ill, chronically homeless individuals and families not only ends their homelessness, but-also yields substantial cost saving in public health, criminal justice, and other systems.

This year, we have made a specific effort to assist homeless veterans. As our young men and women return from Afghanistan and Iraq, they deserve to be treated with dignity and honor. Yet our Nation's Veterans are 50 percent more likely than the average American to become homeless. More than 11,000 service members returning from those wars have already been forced to live on the streets or in homeless shelters. And more Vietnam-era Veterans remain homeless today than troops who died during the war itself.

Nowhere is our obligation to our citizens, and to those who have defended our Nation, more important, more visible, or more urgently necessary than in our commitment to end homelessness.

IMPACT Analysis:
How HUD and the VA Are Partnering to End Veterans Homelessness

The Homelessness Prevention and Rapid Re-housing Program, created by the Recovery Act, has helped local partners prevent or end homelessness for more than 900,000 people – including about 18,000 veterans. And its effects have had an equally innovative impact on how the Federal government responds to homelessness – particularly veterans' homelessness.

HUD and the Department of Veterans' Affairs are collaborating on "HUD-VASH," which combines HUD's Housing Choice Voucher rental assistance with VA's case management and clinical services. This partnership is critical to ending veterans' homelessness. When President Obama was sworn into office, the program helped less than 1,200 veterans lease properties. One of the reasons veterans couldn't use HUD-VASH vouchers was that they couldn't provide something as simple as a security deposit.

HPRP helped many veterans overcome these kinds of obstacles to find a home. *By the end of 2010, HUD-VASH had accelerated its pace of housing veterans by nearly 20 times – helping more than 21,000 veterans*.

As the outgoing Chair of the U.S. Interagency Council on Homelessness, I am pleased that this Budget provides over $2.5 billion to make progress toward the ambitious goals of Opening Doors: the Federal Strategic Plan to Prevent and End Homelessness, which was released by the Administration in June 2010. Opening Doors establishes a 5-year timeline for ending chronic and veteran homelessness and commits to ending family and youth homelessness over a decade. This budget will enable our stakeholders to make substantial progress on these ambitious timelines. It includes:

- Over $2.3 billion for Homeless Assistance Grants to maintain existing units and expand prevention, rapid rehousing, and permanent supportive housing;
- $145 million in new housing vouchers and related administrative fees for over 19,000 homeless veterans and other homeless individuals and families who receive education, health care, and other services through the Departments of Education (DoE), Health and Human Services (HHS), and Veterans Affairs (VA).
- $50 million to test new incentives—including service coordinators and special payments—to encourage housing authorities and private landlords to serve more homeless persons.

These funding increases will enable HUD to assist approximately 78,000 additional homeless individuals and families.

The Budget also provides a total of $953 million for the Housing for the Elderly (Section 202) and Housing for Persons with Disabilities Programs (Section 811). This not only preserves assistance in all existing units, but also includes $499 million for new construction to respond to the overwhelming demand among low-income elderly, including frail elderly, and disabled individuals for affordable housing that allows them to continue living independently in the community. The Administration remains committed to further updating and reforming these crucial programs, building on a foundation that was provided by two bipartisan bills passed in the 111th Congress. Those bills offered key steps forward—for Section 811, authorizing HUD to provide operating-assistance-only funding through States which demonstrated an integrated health care and housing approach to serving disabled households and for Section 202, authorizing key preservation tools including new Section 8 contracts to maintain long-term affordability on aging properties. In 2012, the Administration will have in place the framework to ensure that these programs better leverage other housing and health care resources, afford streamlined processing to improve timeframes, and are targeted to elderly and disabled individuals who can best benefit from affordable housing.

Goal 4: Build Inclusive Sustainable Communities Free From Discrimination

Each year HUD dedicates approximately a quarter of its funds to the capital costs of housing and economic development projects throughout the country, which become even more critical for communities hardest hit by our country's economic downturn. As with HUD's rental assistance programs, HUD's capital grants—including the Public Housing Capital Fund, HOPE VI capital grants, 202 capital advances, 811 capital advances, CDBG, HOME, HOPWA, and ESG—tend to assist areas of great need. For example, 61 percent of HUD capital dollars are invested in cities and counties with an unemployment rate greater than the national average. Indeed, the average HUD capital dollar is dedicated to a city or county with an unemployment rate of 10.5 percent, nearly one full percentage point above the national unemployment rate.

Through these grants, HUD and its partners are able to provide better opportunities for people living in neighborhoods of concentrated poverty and segregation, and offer choices that help families live closer to jobs and schools. These priorities reflect a core belief: when you choose a home—you also choose transportation to work, schools for your children, and public safety. You choose a community—and the amenities available in that community. Programs such as the Community Development Block Grant (CDBG), the Rural Innovation Fund, and Choice Neighborhoods are targeted to areas of need, to provide locally driven solutions to overarching economic development challenges.

Strategic Investments in America's Economic Future: The Community Development Block Grant (CDBG)

The Budget proposes a funding level of $3.691 billion, an increase of 10.6 percent relative to fiscal year 2011 funding, but 7.5 percent below fiscal year 2010. This funding level acknowledges two realities. The first is the need to take responsibility for our deficit, even if it means reducing support for important programs such as CDBG. Second, it demonstrates the Administration's continued commitment to assisting local governments and States in improving living conditions in low- and moderate-income neighborhoods across the country.

As the Federal Government's primary community development program, CDBG serves as the backbone of State and local community and economic development efforts. In FY2010, CDBG was estimated to reach more than 7,250 local governments through various components of the CDBG Programs—the Entitlement Communities Program, the Urban County Program, the State Program, and the Insular Area Program. In FY2010, CDBG investments directly created 19,293 jobs, not including any indirect effect on additional jobs.

Tough Choices:
Reducing Funding for CDBG, HOME and the University Community Partnership

Although this Budget provides funding above fiscal year 2011 levels for the Community Development Block Grant (CDBG)and HOME Investment Partnerships , it does not restore funding to fiscal year 2010 levels and does not propose funding for the University Community Partnerships, terminated in fiscal year 2011. While the Budget does provide $5.5 billion in CDBG and HOME funds—substantial, flexible resources that allow State and local grantees to improve infrastructure, build and rehab affordable housing, provide rental assistance, and create and retain jobs—these are difficult cuts, particularly given the financial challenges states and localities are facing. But American families are tightening their belts – and we need to do the same.

More than 109,000 households received some form of housing rehabilitation assistance. More than 10 million people benefited from CDBG-funded public service activities and more than 4 million benefited from CDBG-financed public improvements.

State and local governments are facing unprecedented budget shortfalls and fiscal constraints. These constraints make CDBG funding more essential than ever for local communities; CDBG funding is increasingly one of the few resources available at the local level to support housing rehabilitation, public improvements, and economic development assistance—despite growing needs, local governments have often had no choice but eliminate some of these activities from their own budgets.

Innovative Community Development: Sustainable Communities

Attracting new businesses to our shores depends on urban, suburban, and rural areas that feature more housing and transportation choices, homes that are near jobs, transportation networks that move goods and people efficiently, all while lowering the cost and health burdens on families, businesses and the taxpayer. Unfortunately, today, congestion on our roads is costing us five times as much wasted fuel and time as it did 25 years ago, and Americans spend 52 cents of every dollar they earn on housing and transportation combined.

Communities from Dallas to Salt Lake City have demonstrated that by better linking housing, transportation, and economic development, parents can spend less time driving and more time with their children; more families can live in safe, stable communities near good schools and jobs; more kids can be healthy and fit; and more businesses have access to the capital and talent they need to grow and prosper. Indeed, communities that have planned for growth by linking these together have a built-in competitive edge when it comes to attracting the jobs and private investment they need to win the future.

Regions across the country understand this, which is why this budget continues one of the most groundbreaking cross-agency collaborations in recent history: the Partnership for Sustainable Communities, which includes HUD, DOT, and EPA.

When the Obama administration announced the availability of regional and local planning grants for sustainable communities, demand was extremely high, as we received applications from all 50 States and two territories—from central cities to rural areas, small towns, and tribal governments. Over half of HUD's Sustainable Communities Regional Planning Grants were awarded to regions with populations less than 500,000 and rural places with fewer than 200,000 people. And of the 62 planning grants awarded jointly by HUD and the Department of Transportation almost 30 percent went to rural communities.

At a time when every dollar the Federal Government invests in jumpstarting the economy is critical, the Partnership helps ensure that all agencies are coordinating efforts and targeting resources more strategically. Reflecting this new collaboration, the initial round of grants was judged by a multidisciplinary review team, drawn from eight Federal agencies and from partners in philanthropy. We have heard clearly from local businesses and elected officials that the joint grants supported by the Partnership are helping them achieve their own local visions: working across their own jurisdictional lines to coordinate land use, housing, and transportation investments on regional and community levels; creating more sustainable development patterns that reduce the crushing financial housing and transportation cost burden too many working families face today; and putting in place an infrastructure that will make them competitive in the global, 21st century economy.

HUD's 2012 budget requests $150 million to create incentives for more communities to develop comprehensive housing and transportation plans that result in jobs, economic growth, easier commutes, and more efficient transport of goods. Up to $5 million will be used to develop more sophisticated data tools to help owners and operators identify and implement energy efficiency measures that can lower the cost of heating, cooling, and lighting in their HUD-assisted properties.

IMPACT Analysis:
How Sustainable Communities Funding Creates Jobs:

In the fall of 2010, HUD and the Department of Transportation awarded nearly $170 million in planning grants to regions and communities across the country. HUD awarded a $3.7 million regional grant to a consortium of public and private partners in Austin, Texas, which is developing a long-range regional transportation plan connecting a network of 37 mixed-use, mixed-income communities closely linked to transit and job centers. Specifically, with this planning grant, the city intends to build a trucking/air/rail transportation hub near the Austin International Airport that will employ 2,000 people from the region. In addition, Austin's use of these funds will help 3,000 small, family-run businesses expand or open a second location contingent on each of these businesses hiring 1 new worker who has been unemployed for a year or more. This will create an additional 3,000 jobs in an area of the country where small businesses are the major driver of growth. Lastly, with the expertise of private, higher education and public partners, the consortium is using the grant to redevelop up to ten strategically located properties for workforce housing and small businesses, directly and indirectly creating as many as 2,000 additional jobs.

Austin's Department of Economic Growth and Redevelopment Services estimates that HUD's grant will help *create at least 7,000 permanent jobs and thousands more in the construction sector,* generating an additional *$1.1 billion of economic growth over the next five years and saving the taxpayer $1.25 billion* through better connected housing and businesses, more people employed and fewer people dependent on government services.

Out-Educating the Rest of the World: Choice Neighborhoods

The President has made clear that winning the future depends on America winning the race to educate our children. But that's not possible if we are leaving a whole generation of children behind in our poorest neighborhoods. That is why the budget also brings Federal partnerships to connect historically isolated people and neighborhoods to local, regional, and national economies by providing a third year of funding ($250 million) for another signature element of the Administration's place-based approach—the Choice Neighborhoods initiative.

Choice Neighborhoods builds upon the HOPE VI program launched by previous HUD Secretaries Jack Kemp and Henry Cisneros and congressional champions like Senators Kit Bond and Barbara Mikulski. HOPE VI restored the most severely distressed public housing across America and did so while leveraging double the Government investment in additional private development capital. Choice Neighborhoods will continue transformative mixed-finance investments in high-poverty neighborhoods where distressed HUD-assisted public and privately owned housing is located. It will bring private capital and mixed-use, mixed income tools to transform affordable housing in 5 to 7 neighborhoods with grants that primarily fund the preservation, rehabilitation, and transformation of HUD-assisted public and privately owned multifamily housing. Like HOPE VI, it will also engage the private sector and the "third sector" of nonprofits, philanthropies, and community development corporations who have become some of our most sophisticated, affordable housing developers and important civic institutions.

Choice Neighborhoods is a central element of the Administration's interagency strategy to provide local communities with the tools they need to revitalize neighborhoods of concentrated poverty into neighborhoods of opportunity. This strategy requires HUD, the Department of Justice, the Department of Education, the Department of Health and Human Services, and other agencies to work together, co-investing, and pooling their expertise as part of a focused Neighborhood Revitalization Initiative where local actors can seamlessly integrate diverse Federal funding streams to tackle complex problems. In particular, through partnerships with Education's Promise Neighborhoods initiative, Choice Neighborhoods will help ensure that the President's commitment to out-educating the rest of the world applies to every child in America, regardless of their neighborhood or the kind of housing they grow up in.

The Department's administration of the first rounds of funding for Choice Neighborhoods and the Sustainable Communities Regional and Community Challenges grants exemplify how our practices generate effective partnerships with local housing and community development efforts. In the past, many Federal grant programs followed a rigid, top-down, "one-size fits all" approach that dictated what local policy makers could and could not do rather than listening to them and providing the tools they needed to meet local needs. Having served in local government myself, I am committed to a collaborative approach responsive to local needs—and believe the results thus far demonstrate that we are making good on that commitment.

Ensuring Rural Communities Can Compete in a 21st Century Global Economy

The Administration has placed a significant emphasis on ensuring that America's rural communities are competitive in the 21st century economy. Rural communities generally have less access to public transportation, along with higher poverty rates and inadequate housing. This Administration recognizes that residents of these communities also face unique challenges when it comes to accessing health care, grocery stores, and adult education opportunities, among others.

HUD currently invests billions of dollars in rural communities through its core rental assistance programs and block grants. The State CDBG program uses 30 percent of annual CDBG funding for nonentitlement areas across the country. Because small towns and rural areas often lack the basic modern infrastructure that citizens in larger communities can take for granted, States annually spend over 55 percent of their CDBG funds on basic public improvements such as water and sewer lines, paved streets, and fire stations. And because rural communities need good jobs to sustain themselves, one out of every eight State CDBG dollars is spent on economic development. In FY2010, State CDBG funds created or retained over 12,000 jobs for lower-income rural Americans.

In addition to the special category of funding we created for small towns and rural places in the Sustainability Regional Grant program, this budget requests $790 million to fund programs that are specifically targeted to housing and economic development activities in rural communities including:

- $25 million for the Rural Innovation Fund to support innovative approaches dedicated to addressing the problems of concentrated rural housing distress and community poverty through comprehensive community development, housing, and economic development activities. The fund builds on the Rural Housing and Economic Development program which has built and rehabbed over 17,000 homes, created credit unions and business incubators that have helped more than 2,000 businesses get off the ground, and supported housing counseling and home ownership programs. Over the last decade, this program created 13,000 jobs, provided job training to nearly 38,000 people, and leveraged more than three times the quarter-billion dollars HUD has invested in this program in other public and private funds, providing an excellent return for the taxpayer. With the Rural Innovation Fund, we will support these kinds of efforts on the larger scale these challenges require.
- $25 million for the Rural Housing Stability Program to assist homeless persons in rural communities. Since 2010, HUD has provided targeted Homeless Assistance Grants to persons living in small communities through a set-aside. As part of the Homeless Emergency Assistance and Rapid Transition to Housing (HEARTH) Act, the Rural Housing Stability program was specifically authorized in order to provide housing, training, and services for homeless individuals and families, as well as those families at risk of becoming homeless.
- $782 million to fund programs that will support housing and development initiatives in American Indian, Alaska Native, and Native Hawaiian communities. As the single largest sources of funding for housing Indian tribal lands today, HUD initiatives in Indian country continue to have some of the Department's most successful track records. Programs like Indian Housing Block Grants, Indian Home Loan Guarantees, and Indian Community Development Block Grants support development in remote areas where safe, decent, affordable housing is desperately needed. HUD also directly supports housing and economic development initiatives in remote areas of Hawaii, through the Native Hawaiian Housing Block Grant Program and Native Hawaiian Loan Guarantee Program.

Winning the Future: A Successor to Empowerment Zones

The Budget also includes a multi-agency initiative, Growth Zones, to assist communities in using their funds more effectively to support job creation—an improved successor to the Empowerment Zones that expire this year. Coupling targeted tax benefits and grant funding, the Budget supports the launch of an interagency effort led by the Department of Commerce's Economic Development Administration (EDA), and supported by HUD and the Department of Agriculture. In addition, the Budget also supports another interagency effort with EDA that helps communities to better employ the Federal investments they already receive (such as CDBG and HOME), promote high-impact strategies, and build the local capacity needed to execute those strategies in economically distressed areas. This effort will enable these communities to create more effective partnerships with businesses and nonprofits that will attract critical private investments to promote job creation. With leveraged support from HUD, other Federal agencies, and the philanthropic community, the Federal

Government offers targeted EDA funds, technical assistance, and a National Resource Bank—a "one-stop-shop" of experts that communities can draw upon for a full range of services, including fiscal reforms, repurposing land use, and business cluster and job market analysis.

Inclusive Communities for All

Finally, a sustainable community is one in which all people—regardless of race, ethnicity, religion, sex, disability, or familial status—have equal access to housing and economic opportunities. Throughout its portfolio of programs, HUD is committed to maintaining that inclusivity and providing accountability in housing and lending practices nationwide. Through inclusive development, education, enforcement of fair housing laws, and participation of historically underrepresented populations in HUD policies and planning, HUD will affirmatively further fair housing and the ideals of an open society. To that end, the Department is requesting $72 million—$11 million more than the fiscal year 2011 request—to support the division of Fair Housing and Equal Opportunity's administration of the Fair Housing Initiative Program (FHIP) and Fair Housing Assistance Program (FHAP).

Goal 5: Transform the Way HUD Does Business

Winning the future means reforming Government so it's leaner, transparent, and ready for the 21st century. While HUD programs make a big difference in the lives of ordinary Americans, this Administration is also committed to making Government more efficient, more effective, and more accountable. Particularly in today's tight fiscal environment, the need for responsible budgeting has never been greater—and making smart, responsible choices depends on quality information. That is why this Budget demonstrates a strong commitment to conducting the research and collecting the data we need to understand what works, what doesn't, and what we need to do better—so that HUD can better serve the American people, better protect the American taxpayer and better partner with communities to meet the challenges of the decades ahead.

The Budget provides up to $120 million for the Transformation Initiative (TI) Fund. In fiscal years 2010 and 2011, thanks to the TI Fund, HUD began to fundamentally alter how we approached our investments in delivering technical and capacity-building assistance, conducting research demonstrations, and maintaining and upgrading our IT systems so that we can hold ourselves and our local partners accountable for the outcomes needed to achieve the Department's strategic goals.

More of What Works and Less of What Doesn't: Research and Demonstrations

A key element of HUD's transformation strategy is to provide a predictable stream of funding for high quality research and evaluation that can inform sound policymaking. Allocating a small increment of program funds to this account will enable HUD to subject programs continuously to rigorous evaluation. Absent investment in key evaluations, demonstrations, and analysis, HUD's capacity to support program refinement, measure progress toward goals and engage in robust policy development is extremely limited. This new era of evidence-based policymaking demands that HUD build back its internal research capacity and work in partnership with the research community to evaluate existing programs and design new policy approaches to solving America's housing and community development challenges.

The Research, Evaluation, and Performance Metrics initiative will supplement Research and Technology (R&T) appropriations in order to provide the Nation's basic infrastructure of housing data. The more careful and scientific approach enabled by these additional research investments will highlight for policy makers what works and what needs reform. Systematic research enables HUD to monitor results and undertake timely modifications of programs and policies that fail to produce results. A component of this research and evaluation will develop the right set of metrics to track program performance between evaluations to inform management decisionmaking. In fiscal year 2010, the Department was able to supplement a $48 million R&T appropriation with $26 million in Transformation Initiative Research, Evaluation, and Program Metrics funds. This funding permits the Department to determine how certain program functions ought to cost or ought to operate.

For example, the current allocation method for Housing Choice Voucher (HCV) administrative fees is not based on rigorous and objective studies, and may overcompensate some public housing agencies (PHAs) while underfunding others. The Department has used TI funds to develop a careful examination of the costs of administering the HCV program at high-performing and efficient PHAs in a wide variety of communities.

For fiscal year 2012, the Department anticipates approximately $25 million to be allocated for research projects. HUD's proposed transformational approach to research would also inform the decisions of a broad network of public and private sector actors. A key feature of the new approach is to partner with other Federal agencies, such as the Departments of Transportation and Energy, and the Environmental Protection Agency, on research topics of mutual interest. HUD will again confer with OMB and the appropriate Congressional Appropriations and Authorizing committees before finalizing the research agenda for funding under the Transformation Initiative. Combined with efforts already in progress, HUD expects that this research will both improve program effectiveness and generate savings over time.

An additional strategic thrust of the Transformation Initiative was to enable HUD to design and execute a series of major research demonstrations. These trials of new program ideas provide a controlled mechanism to improve programs and—help State and local governments develop more effective strategies for housing and community and economic development. Demonstrations are necessary to test innovative program approaches to improve the delivery and reduce the cost of public services. In short, well-run demonstration programs—such as the Jobs Plus, Moving to Opportunity, and Effects of Housing Vouchers on Families demonstrations of the early 1990s—enable the Federal Government and our local partners to fund what works, and defund what does not. However, demonstrations generally require funding over several years and often allow waiver of program rules when conducted to pilot ideas for existing program changes. Flexible funding may be needed to cover design resources, additional program costs, such as incentives for participating households, and evaluation of the impacts over several years.

Using funding flexibility granted in fiscal year 2010, HUD launched important demonstrations to test policy interventions in the Family Self Sufficiency (FSS) program, rent reforms in our major rental assistance programs, and the first round of Choice Neighborhoods grants, among others. For instance, the FSS program encourages public housing tenants to increase earnings by allowing them to set aside the rent increases they would otherwise pay to further specific goals, such as education and homeownership. TI funds will be used to test whether this is a cost-effective approach to increasing self-sufficiency that can be taken to scale. HUD anticipates allocating $15 million in fiscal year 2012 TI funding to program demonstrations, and, as in fiscal years 2010 and 2011, HUD will confer with both the House and Senate Appropriations committees before finalizing planned demonstrations under the Transformation Initiative. These demonstrations will, in conjunction with HUD Stat, be critical for informing funding decisions, as well as the reengineering and streamlining of business processes and procedures in HUD's programs.

21st Century Technology To Protect the Taxpayer's Investment

Funding for Information Technology (IT) modernization and development is not requested under the TI Fund for fiscal year 2012. Having assessed the fiscal year 2010 planning and implementation efforts, HUD has determined that funding these activities under the Working Capital Fund in fiscal year 2012 will allow the Department to better align the account structure and decision-making process with budget planning and investment life cycle management policies. Within the TI Fund, HUD will utilize significant balances from fiscal year 2010, as well as funds available in fiscal year 2011, to continue the execution of priority IT development, modernization, and enhancement efforts, including FHA Transformation and the Next Generation Voucher Management System.

The FHA Transformation project involves the development of a modern financial services IT environment to better manage and mitigate counterparty risk across all of FHA's Insurance Programs. The system will minimize the exposure of our Insurance Funds and support the restoration of the capital reserve ratio to congressionally mandated levels by enabling risk detection, fraud prevention and the capture of critical data points at the front-end of the loan life cycle. More simply put—FHA Transformation will enable HUD to identify trends, and seamlessly take action, before problems occur. This approach will protect consumers and the economy by ensuring that safe underwriting standards are adhered to, as FHA approaches $1 trillion of Insurance-in-Force. Importantly, FHA Transformation will also allow HUD to start the careful process of migrating relevant portions of our legacy applications, most of which were built in a 1970's era programming language, to a more cost-effective platform.

The Next Generation Voucher Management System (NGVMS) performs a Department-wide reengineering of the current voucher management business models and processes. NGVMS will replace 20-year-old legacy systems and Excel-based budget spreadsheets with a solution that establishes uniform processes and a standard set of rules and regulations that support all of HUD's rental assistance programs. The system will support enhanced budget planning and forecasting capabilities, improve grantee reporting and data integrity, and ensure that programs comply with the requirements of the selected provisions from the proposed Section 8 Voucher Reform Act (SEVRA).

In addition to improving systems that support HUD's programs, the agency is also investing in technology to improve HUD's administrative processes. For example, the HUD Integrated Acquisition Management System (HIAMS) will automate all phases of the acquisition life cycle to create greater accountability and transparency, as well as enable timely processing of procurement actions. The agency's current process is manually intensive and highly susceptible to errors. HIAMS will reduce processing inefficiencies, increase visibility into the acquisition process, and enable HUD to obtain services faster. The system utilizes the most widely adopted Federal acquisition management software, a solution that is currently used by more than 80 organizations across the civilian, intelligence, and defense sectors.

Reforming Government and Improving Accountability With Cutting-Edge Technical Assistance

The community development field is evolving to a more comprehensive, sustainable approach to neighborhoods and cities. As noted, HUD has embraced this change with new initiatives like Sustainable Housing and Communities, Choice Neighborhoods, and the Neighborhood Stabilization Program. In order to realize this expanded vision, the Nation needs local practitioners—both local government and nonprofit partners—who understand a more comprehensive approach, who can use current technology to assess needs and to measure success, and who have modern skills to deliver results and save money for the taxpayer.

The Transformation Initiative recognizes that enhanced and focused information, and more targeted support for grantees, will result in better program administration and more integrated planning and action that cross programs and jurisdictions. Effective responses to urban and housing challenges increasingly require coordination and awareness of diverse areas of knowledge: housing finance as well as land use planning; economics as well as energy efficient design; community development as well as transportation planning; accessible design as well as job creation strategies.

The Transformation Initiative is helping HUD to develop a new level of technical assistance and capacity building to Federal funding recipients. Traditionally, HUD has delivered compliance-oriented technical assistance, funded through individual program accounts that ensure grantees are fully aware of the rules governing HUD's disparate programs. HUD's fiscal years 2010 and 2011 budgets proposed rolling these accounts into one broad technical assistance effort to be funded from global transfers to the TI Fund. Central funding through the Transformation Initiative has allowed the Department to develop comprehensive technical assistance efforts that focus on skills needed to improve program outcomes, rather than merely reinforcing program compliance.

In the 2012 Budget, HUD once again requests discretion to target technical assistance funding to those programs that need it most based on the capacity of current grantees, new program requirements (*e.g.,* the continued implementation of the HEARTH Act, or implementation of new programs such as Choice Neighborhoods or Sustainable Housing and Communities), broader economic and social imperatives (*e.g.,* a spike in homelessness, or the impact of high energy and housing costs on housing affordability), or unanticipated crises (*e.g.,* natural disasters). In order to ensure that these critical but limited resources are targeted appropriately, HUD will continue to evaluate the technical assistance needs of its grantee communities in fiscal year 2011 with Transformation Initiative funds and build on those findings with funds from fiscal year 2012.

In particular, HUD is involved in the "Strong Cities, Strong Communities" pilot—involving 12 other agencies including the White House—aimed at improving the capacity of local governments in chronically distressed cities and developing partnerships to support job creation and economic development. Many of the cities that have historically driven America's economic growth are now amongst its most economically distressed. These cities have struggled to return to a place of economic productivity and opportunity after decades of industrial decline—a challenge exacerbated by the recent economic downturn. This initiative is designed, not to provide additional funding, but instead to ensure that communities are using the resources already available to them more effectively and efficiently so they can compete in the global economy.

As part of this effort, the Transformation Initiative will support the creation of a National Resource Bank (NRB). The Bank is so named because it will be a repository of technical assistance for local governments across the Nation, but will not provide direct financial resources. The NRB will align and aggregate public and private funds to provide cities tailored technical support through a "one-stop-shop" of national experts with wide-ranging skills that are critical for economic development.

These include fiscal reforms, repurposing land use, and business cluster and job market analysis, to name a few. The NRB will help lay the foundation for economic recovery and transformation in these cities through truly place-based support that leverages existing strategic partnerships between local governments, Federal regional office staff, and the philanthropic community and helps to foster further linkages for the long-term benefit of these cities. The local demand for the capacity-building assistance that the NRB will provide is broad and sustained. Cities have had few options for building organizational capacity since the 1970s, and recent budget cuts have created even greater strains on capacity at the same time that local challenges are growing more complex. The NRB will play an essential role in helping to coordinate and direct Federal technical assistance functions at a time of severe local government need.

Conclusion

Mr. Chairman, this Budget reflects the Obama administration's recognition of the critical role the housing sector must play for the Nation to out-build, out-educate, and out-innovate our competitors. Equally important, it expresses the confidence of the President in the capacity of HUD to meet a high standard of performance.

Given the economic moment we are in, HUD's FY2012 budget proposal isn't about spending more in America's communities—it's about investing smarter and more effectively.

It's about making hard choices to reduce the deficit—and putting in place much-needed reforms to hold ourselves to a high standard of performance. But most of all, it's about the results we deliver for the vulnerable people and places who depend on us most.

I believe winning the future starts at home—and with this budget of targeted investments and tough choices that I respectfully submit, we aim to prove it. Thank you.

RESPONSES TO WRITTEN QUESTIONS OF CHAIRMAN JOHNSON FROM SHAUN DONOVAN

Q.1. *Section 8 Voucher Administration Funding.* The FY11 appropriations act includes a significant cut to the administrative funding that local agencies use to support the voucher program. Although the reduction is less severe than proposed by the House in HR 1, I am concerned that essential operations will be seriously affected for voucher administrators, particularly in a State like mine with smaller agencies covering large distances. PHAs may be forced to layoff workers and cut back services, leading to increased waiting times for voucher recipients and less expeditious use of HUD housing voucher funds. The impact of this cut may also be greater because it is coming late in the fiscal year.

When will you tell agencies what their voucher funding will be in the remaining months of FY2011?

What do you think might be the impact of the FY11 reductions on families, agencies, and the program?

Given existing constraints, are there proposals that would help to streamline some of the voucher program's administrative functions, through the Section Eight Voucher Reform Act or regulatory means?

A.1. Response not provided.

Q.2. *Interagency Partnerships/Incremental Vouchers.* One key to increasing the effectiveness of our programs is to ensure that Federal agencies are not working at cross purposes on common goals. Your budget requests $57 million for new vouchers that will be used in two new interagency initiatives to improve outcomes for homeless children and at-risk individuals. HUD will partner with HHS and the Department of Education on these initiatives.

What are you hoping to demonstrate with these initiatives, both about services for the homeless and interagency coordination?

A.2. Response not provided.

Q.3. *Sustainable Communities.* Last year I worked with then-Chairman Dodd to ensure that Tribes and rural communities would have access to the funding and technical assistance provided in his Livable Communities Act. That bill was closely related to the Sustainable Communities program that Congress has funded in recent years to help communities coordinate their own transportation and housing efforts.

What kind of interest are you seeing from rural and tribal communities in Sustainable Communities efforts?

A.3. Response not provided.

Q.4. *FHA.* Last week, the *American Banker* reported that lenders were delaying claims on FHA insured loans to avoid incurring treble damages and that this pool of claims might threaten the MMI fund if they were eventually filed.

Did the article accurately reflect the situation? Is HUD monitoring these potential claims and could they pose a threat to the MMI fund?

With the recent announcement that the Department of Justice was suing Deutsche Bank regarding alleged misrepresentations of loans to FHA, does FHA have the tools necessary to seek remedies from any lender that misleads the FHA?

Would having that additional authority better protect the MMI fund and taxpayers?

A.4. Response not provided.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR SCHUMER FROM SHAUN DONOVAN

Q.1. HUD's FY2012 Budget requests that Congress fund the Public Housing Operating Subsidy at $4.962 billion by seeking $3.962 billion in appropriations and proposes that HUD use an additional $1 billion in public housing operating reserves as an offset to operating subsidy. While I understand that we are working in a difficult fiscal environment, this particular proposal has raised an enormous outcry from stakeholders who are concerned that this reflects a reversal in HUD's policies regarding the use of operating reserves.

I understand that HUD encourages public housing authorities to accumulate operating reserves through responsible asset management, rent freezes and the Public Housing Assessment System (PHAS) to be available to meet operating or capital needs. Is it fair to retroactively recapture funds from housing authorities that have been responsible and successful at complying with HUD's goals? How does HUD plan to provide future incentives to housing authorities for being resourceful and their ability to accumulate operating reserves?

This question is intended for United States Department of Housing and Urban Development Secretary Shaun Donovan.

A.1. Response not provided.

Q.2. According to HUD's Congressional Justifications for the FY2012 Budget Request, there is a documented $20–$30 billion backlog in capital needs for public housing. Do you believe that the Federal Government can provide these resources? Is it responsible to manage the public housing program by taking away $1 billion from properties that have such large unmet needs? In what ways does HUD plan to assist public housing authorities with large capital needs in order to compensate for a potential loss in operating reserves?

A.2. Response not provided.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR AKAKA FROM SHAUN DONOVAN

Q.1. The Housing Counseling Assistance Program was not funded as part of the recently enacted Full Year CR. I am very pleased to see that housing counseling funding would be restored under the Administration's proposal. What impacts have housing counseling had on housing outcomes for homeowners and renters? How do you measure the effectiveness of housing counseling services?

A.1. Response not provided.

Q.2. Housing and transportation are the two highest costs for most families. A significant high-speed rail project is underway in Hawaii. Transit-oriented development neighborhood plans are now being developed. How can HUD assist in ensuring the availability of sufficient affordable housing opportunities in Hawaii's transit-oriented development districts?

A.2. Response not provided.

Q.3. The Administration's budget does not include additional resources for the Native Hawaiian Housing Loan Guarantee program in FY2012. This program has consistently received an annual appropriation of $1 million, and the budget justification contends that the unobligated balance is sufficient to program needs in the next fiscal year. What can be done to increase participation in the Section 184(a) loan guarantee program in the future?

A.3. Response not provided.

Q.4. The Federal Housing Administration's Section 247 mortgage insurance program continues to be an invaluable tool for increasing homeownership among Native Hawaiian families. The unique nature of the Hawaiian Home Lands, which were established through the Hawaiian Homes Commission Act of 1921, has required a mortgage insurance program distinct from other FHA programs. The effective stewardship by the Department of Hawaiian Home Lands (DHHL) has kept the default rate on these loans very low—the rate currently stands at 4.3 percent. Nevertheless, FHA requires that DHHL "backstop" the FHA General Insurance/Special Risk Insurance fund and make the fund whole for any claims paid, despite the fact that FHA alone collects the insurance premiums. Please explain the justification for this arrangement. Can you provide any examples of other programs that are required to backstop FHA in this manner?

A.4. Response not provided.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR KOHL FROM SHAUN DONOVAN

Q.1. *Responsiveness to Wisconsin's Housing Authorities.* Secretary Donovan, recently my office has received calls from housing authorities and other groups that utilize HUD's programs. These groups have contacted my office because of HUD's response time on making decisions that significantly impact their operations. One group, for example, waited over a year to hear back from HUD on a request to transfer Section 8 vouchers from one property to another. Another group is waiting for HUD's approval on a Housing Assistance Payment Contract transfer. As you know, these organizations all use mixtures of private and public dollars, so when HUD fails to make a timely decision, private dollars are at risk.

Can you explain why it takes HUD so long to respond to these requests? Are there additional resources that HUD needs in order to be more responsive to these groups?

A.1. Response not provided.

Q.2. *Qualified Residential Mortgage Definition.* FHA is statutorily exempt from the risk retention clause in the Wall Street Reform and Consumer Protection Act. Are you concerned that if private lenders must require 20 percent down payments to avoid risk retention, while FHA can offer mortgages with just 3.5 percent down, that FHA could become the only option for families with less than 20 percent to put down on a home? Do you believe that private market alternatives to Government subsidized mortgage insurance should remain in place? What the potential impacts to only having Government sponsored mortgage insurance for these borrowers, without private sector options?

A.2. Response not provided.