TRANSPORTATION AND HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2014

THURSDAY, APRIL 11, 2013

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Patty Murray (chairman) presiding.

Present: Senators Murray, Collins, Coats, and Blunt.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

OFFICE OF THE SECRETARY

STATEMENT OF HON. SHAUN DONOVAN, SECRETARY

OPENING STATEMENT OF SENATOR PATTY MURRAY

Senator MURRAY. Good morning. The subcommittee will come to order.

This morning, we welcome Secretary Donovan to the subcommittee to discuss the President's fiscal year 2014 budget request for the Department of Housing and Urban Development (HUD).

As we begin our discussion of next year's budget, we have to really acknowledge where we are today. Because of the unwillingness of some in Congress to compromise on fair and balanced deficit reduction, we are now living with sequestration and the arbitrary cuts to Federal spending that it requires.

Some here in Washington, DC, have claimed that the impact is minimal. That is not the story that people all across the country who have to live with sequestration's consequences are telling.

The truth is these cuts are having an impact. And in so many cases, it is an impact that is being felt by the most vulnerable in our society.

The cut to HUD's section 8 voucher program, for example, is more than $938 million, forcing housing authorities to make difficult choices to stay within their reduced budgets.

On the ground, that means tens of thousands of fewer vouchers to help our low-income families find safe, affordable housing.

In my home State of Washington, the King County Housing Authority announced it will not be reissuing vouchers, leaving our low-income Washington families without access to affordable housing. Stephen Norman, who is the King County Housing Authority director, said immediately after he was forced to make these cuts that, "Because rents are so high, many of these families may, quite literally, find themselves out on the street as a result of these arbitrary cuts."

They are not alone. Many housing authorities across the country are being forced to make similar decisions.

In other communities, families that were in the process of finding a place to live after spending months or years on a waiting list have been told their voucher has been withdrawn.

They are losing hope and relief of finally having access to affordable housing. Instead, they are left with frustration and uncertainty.

Those families are paying the price for the fact that Washington, DC, continues to lurch from crisis to crisis instead of compromising around a balanced deficit reduction plan.

As we continue to debate the future of the Federal budget, they are a clear reminder that our decisions have consequences, because this debate is about more than just numbers, it is about people's lives and the Nation's values.

This debate is also occurring at a critical time for our economy. After struggling through the great recession, the economy is finally growing. But recent jobs reports highlight how fragile our recovery is and that we cannot afford to push off the hard choices a budget deal requires.

Our focus needs to be on creating jobs today, while laying a strong foundation for the future.

A responsible plan will reduce the Nation's deficit. But it cannot be at the expense of the most vulnerable or investments in things like infrastructure and education that are essential for a strong economy.

The budget we recently passed in the Senate provides a path forward that balances responsible spending cuts with necessary investments. And I look forward to working with my colleagues in both the House and the Senate to try to enact a responsible budget compromise.

This will require hard choices on all sides, but the American people expect action.

So as we continue to work on the budget, we also have to begin our work on the fiscal year 2014 appropriations bills. And today, this subcommittee begins its work by examining HUD's budget request.

The majority of HUD's budget supports a critical part of the Nation's safety net—housing assistance. This includes funding for section 8 vouchers, project-based section 8, public housing, and homeless assistance grants.

These programs have long provided low-income Americans with safe, affordable housing and shelter in time of crisis. These programs are even more important today as families struggle to find affordable housing.

According to HUD's recent report on the worst-case housing needs, in 2011, there were over 8.5 million low-income renters who spent more than 50 percent of their income on housing, lived in severely substandard housing, or both.

Perhaps even more troubling is the fact that this number has grown by 43.5 percent since 2007.

As we struggle to address the growing housing needs with limited resources, Federal programs must be smarter and more agile. Neither the taxpayers nor the millions of people who rely on these programs can afford waste or inefficiency.

So it is incumbent upon HUD and this subcommittee to ensure accountability. We have to look for ways to improve program oversight and delivery by ensuring people are following the rules, eliminating outdated regulations, streamlining programs, and improving coordination across Government programs to make the best use of scarce resources.

Improving Federal programs goes beyond ensuring compliance. It also means focusing on outcomes.

Successful housing programs are those that create new opportunities for their residents so they can improve their lives and those of their children.

In Washington State, I have seen exciting partnerships among housing authorities, schools, community colleges, and employers designed to reduce poverty and its lasting impacts.

These partnerships are built on an understanding that housing can and should do more than meet the basic need for shelter.

Housing in strong, safe neighborhoods with access to good schools, jobs, services, and transportation can help transform people's lives.

The President's budget includes an initiative called Ladders to Opportunity, which is focused on creating jobs, attracting private investment, improving educational outcomes, and increasing economic activity in high-poverty communities across the Nation.

Several proposals in HUD's budget support this initiative, including Choice Neighborhoods, the Rental Assistance Demonstration, and the Neighborhood Stabilization Initiative.

In addition, the budget includes a new pilot program to help address the needs of the growing low-income elderly population, funding to combat mold in Indian country, and expansion of the successful Jobs-Plus program for public housing residents.

While all of these proposals address important issues facing urban and rural communities across the country, we must evaluate both their budgetary cost and HUD's capacity to take on new initiatives.

HUD cannot effectively manage new initiatives at the cost of the performance and oversight of their existing programs.

The Department must improve its oversight of public housing authorities and other grantees; deliver on the needed investments in its information technology (IT) systems; and continue to strengthen the Federal Housing Administration's (FHA) Mutual Mortgage Insurance (MMI) Fund, which the budget anticipates needing to draw on taxpayer funds for the first time in its history.

As our housing market continues its recovery, now is the time to be thinking of the future of the Nation's housing policy.

This conversation is appropriately focused on reforming our housing finance system to ensure a strong housing market, supported primarily by the private market. But this conversation must also address the future of affordable rental housing.

Recently, the Bipartisan Policy Center's Housing Commission released recommendations for the future of housing policy. My friend, former Senator Kit Bond, was a member. Their recommendations support homeownership and the need to reform our Nation's housing finance system.

The commission also reaffirmed the importance of affordable housing. Its recommendations provide a very good foundation for beginning the discussion of our Nation's housing policy, which I look forward to continuing today.

PREPARED STATEMENT

And with that, I will turn it over to my partner, Senator Collins.
[The statement follows:]

PREPARED STATEMENT OF SENATOR PATTY MURRAY

The subcommittee will come to order. This morning we welcome Secretary Donovan to the subcommittee to discuss the President's fiscal year 2014 budget request for the Department of Housing and Urban Development (HUD). As we begin our discussion of next year's budget, we must acknowledge where we are today.

SEQUESTRATION'S IMPACT ON THE MOST VULNERABLE

Because of the unwillingness of some in Congress to compromise on fair and balanced deficit reduction, we are now living with sequestration and the arbitrary cuts to Federal spending it requires.

And while some here in Washington, DC, have claimed that the impact is minimal, that's not the story that people all across the country who have to live with sequestration's consequences are telling. The truth is these cuts are having an impact. And in so many cases it's an impact that's being felt by the most vulnerable in our society.

The cut to HUD's section 8 voucher program, for example, is more than $938 million, forcing housing authorities to make difficult choices to stay within their reduced budgets. On the ground, this means tens of thousands of fewer vouchers to help low-income families find safe, affordable housing.

In my home State of Washington, the King County Housing Authority announced that it will not be re-issuing vouchers, leaving low-income Washington families without access to affordable housing. Stephen Norman, the King County Housing Authority director, said immediately after he was forced to make these cuts that "Because rents are so high, many of these families may, quite literally, find themselves out on the street as a result of these arbitrary cuts."

And they are not alone. Many housing authorities across the country are being forced to make similar decisions. In other communities, families that were in the process of finding a place to live after spending months or years on a waiting list have been told that their voucher has been withdrawn. They are losing the hope and relief of finally having access to affordable housing. Instead they are left with frustration and uncertainty. These families are paying the price for the fact that Washington, DC, continues to lurch from crisis to crisis instead of compromising around a balanced deficit reduction plan. As we continue to debate the future of the Federal budget, they are a clear reminder that our decisions have consequences.

Because this debate is about more than just numbers, it is about people's lives and the Nation's values. This debate is also occurring at a critical time for our economy. After struggling through the Great Recession, the economy is finally growing. But recent jobs reports highlight how fragile our recovery is and that we cannot afford to push off the hard choices a budget deal requires.

Our focus needs to be on creating jobs today, while laying a strong foundation for the future. A responsible plan will reduce the Nation's deficit. But it cannot be at the expense of the most vulnerable or investments in things like infrastructure and education that are essential for a strong economy.

The budget we recently passed in the Senate provides a path forward that balances responsible spending cuts with necessary investments. I look forward to working with my colleagues in both the House and Senate to try to enact a responsible budget compromise. This will require hard choices on all sides, but the American public expects action.

As we continue work on the budget, we must also begin our work on the fiscal year 2014 appropriations bills. And today, this subcommittee begins its work by examining HUD's budget request.

The majority of HUD's budget supports a critical part of the Nation's safety net—housing assistance. This includes funding for:

—section 8 vouchers;
—project-based section 8;
—public housing; and
—homeless assistance grants.

These programs have long provided low-income Americans with safe, affordable housing and shelter in times of crises. These programs are even more important today as families struggle to find affordable housing.

According to HUD's recent report on the worst case housing needs, in 2011, there were over 8.5 million low-income renters who spent more than 50 percent of their income on housing, lived in severely substandard housing, or both. Perhaps even more troubling is the fact this number has grown by 43.5 percent since 2007.

IMPROVING PERFORMANCE AND ACCOUNTABILITY

As we struggle to address the growing housing needs with limited resources, Federal programs must be smarter and more agile. Neither the taxpayers nor the millions of people who rely on these programs can afford waste or inefficiency. So it is incumbent upon HUD and this subcommittee to ensure accountability. We must look for ways to improve program oversight and delivery by:

—Ensuring people are following the rules;
—Eliminating outdated regulations;
—Streamlining programs; and
—Improving coordination across Government programs to make the best use of scarce resources.

Improving Federal programs goes beyond ensuring compliance. It also means focusing on outcomes. Successful housing programs are those that create new opportunities for their residents so that they can improve their lives and those of their children.

In Washington State, I have seen exciting partnerships among:

—Housing authorities;
—Schools;
—Community colleges; and
—Employers designed to reduce poverty and its lasting impacts.

These partnerships are built on an understanding that housing can and should do more than meet the basic need for shelter. Housing in strong, safe neighborhoods with access to good schools, jobs, services, and transportation can help transform people's lives. The President's budget includes an initiative called "Ladders to Opportunity", which is focused on:

—Creating jobs;
—Attracting private investment;
—Improving educational outcomes; and
—Increasing economic activity in high poverty communities across the Nation.

Several proposals in HUD's budget support this initiative, including:

—Choice Neighborhoods;
—The Rental Assistance Demonstration; and
—The Neighborhood Stabilization Initiative.

In addition, the budget includes a new pilot program to help address the needs of the growing low-income elderly population, funding to combat mold in Indian Country, and expansion of the successful Jobs-Plus program for public housing residents.

While all of these proposals address important issues facing urban and rural communities across the country, we must evaluate both their budgetary cost and HUD's capacity to take on new initiatives.

HUD cannot effectively manage new initiatives at the cost of the performance and oversight of existing programs. The Department must:

—Improve its oversight of public housing authorities and other grantees;
—Deliver on the needed investments in its IT systems; and
—Continue to strengthen FHA's Mutual Mortgage Insurance Fund, which the budget anticipates needing to draw on taxpayer funds for the first time in its history.

As our housing market continues its recovery, now is the time to be thinking of the future of the Nation's housing policy. This conversation is appropriately focused on reforming our housing finance system to ensure a strong housing market, supported primarily by the private market. But this conversation must also address the future of affordable rental housing.

Recently, the Bipartisan Policy Center's Housing Commission released recommendations for the future of housing policy. My friend, former Senator Kit Bond, was a member. Their recommendations support homeownership and the need to reform our Nation's housing finance system.

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With that I turn it over to my partner, Senator Collins.

STATEMENT OF SENATOR SUSAN M. COLLINS

Senator COLLINS. Thank you, Madam Chairman.

First of all, let me say that I am delighted to be working with you once again this year, as we start the fiscal year 2014 appropriations process under the new leadership of both Chairman Mikulski and Vice Chairman Shelby, as well as the members of this subcommittee, including our colleagues, Senator Coats and Senator Blunt, who have joined us today. I am always glad to see strong representation on the Republican side of the dais here.

Mr. Secretary, it is also a great pleasure to see you again. I am very happy that you are apparently going to be staying on in the second administration, at least for a while, since I have found you to be a real straight-shooter and dedicated to improving housing opportunities for the people of this country. And I look forward to continuing to work with you.

Obviously, we still have very serious budget issues to deal with. And we must find a careful balance to ensure that we deal with the ongoing unsustainable $16.7 trillion debt, while providing housing for our most vulnerable citizens.

As we begin to construct this spending bill, we continue to face difficult decisions given these fiscal constraints. Sequestration is going to make some of these decisions even tougher.

I am concerned for the Maine housing authority directors, with whom I recently met, who told me they are being forced to reduce spending at the expense of families in need. Some of them told me that they were actually turning back vouchers because they did not have sufficient administrative funds. And that certainly is of great concern.

Yet, even though sequestration cuts have already taken effect, the deficit continues to rise. The budget that HUD has submitted is $47.6 billion for fiscal year 2014 and an increase of nearly $4.2 billion, or 6.67 percent, over the fiscal year 2013 sequestration levels.

What would be helpful to me today, however, is to have you describe the total resources that are available to HUD, including offsetting receipts, and to give us a comparison to the pre-sequestration levels, as well. And I understand that you are prepared to do that.

The vast majority of this funding will support renewals for rental and homelessness assistance. The budget also provides for investment to revitalize neighborhoods and support economic development initiatives in communities throughout the country.

As we prepare the budget, it is critical that we address the ongoing challenges with homelessness, which remains a personal top priority of mine.

Chairman Murray and I continue to share this commitment, particularly for our Nation's veterans. One out of every six men and women in homeless shelters are veterans. And unfortunately, veterans are 50 percent more likely to fall into homelessness compared to other Americans.

I am pleased that the budget continues funding for HUD's Veterans Affairs Supportive Housing, the HUD–VASH program, at $75 million. This level of funding, I am told, will allow us to serve an additional 10,000 veterans.

And it is important to note that this program is working, that veterans' homelessness has fallen, and it fell by nearly 7.2 percent from 2011 to 2012. That demonstrates that programs like this work.

And that needs to be our focus. We need to focus like a laser on what kinds of housing programs work, give us the biggest bang for the buck, and what kind really have outlived their usefulness, are not expansive, and, most of all, are not effective in serving families in need.

In addition to programs that serve the homeless, HUD provides important support for affordable rental housing.

Another important issue which we discussed at length is the oversight and monitoring of HUD's programs. In that regard, Mr. Secretary, I want to thank you for your work on an investigation in Maine into the Maine State Housing Authority section 8 voucher program last year. I requested an investigation into the troubling cases of serious code violations and other poor conditions that were uncovered in Oxford County, Maine, and brought to me by the attention of a local fire chief who was so concerned. And I appreciate so much the work of your Department in addition to the work of the inspector general.

It is critical that federally subsidized properties comply with all health, safety, and quality standards. After all, it is inexcusable that we are putting residents in units and apartments that had serious violations of welfare and safety and health standards. But it is doubly offensive when the taxpayers are subsidizing those unfit units.

So those are just some of the issues. I am pleased with the increased funding levels for section 202 housing for the elderly. This program has provided over 400,000 affordable homes for very low-income elderly individuals through a number of different financing structures.

Many people are surprised to learn that Maine has one of the largest elderly populations in the country. In fact, if you look at the median age, we are the oldest State in the Nation, older than Florida even. That raises certain challenges.

There is one area that I want to highlight in closing, and that is the funding level for the community development block grant (CDBG) program. As you know, I believe that the level of $2.79 billion is truly disappointing. I am told that, if enacted, this would be the lowest level of funding since 1976. And yet, this program remains the most adaptable, the most welcomed community and economic development Federal program for meeting the unique needs of communities throughout this country.

PREPARED STATEMENT

These are just some of the many issues we are going to have to tangle with this year, and I look forward to working with the chairman and the members of this subcommittee as we consider HUD's fiscal year 2014 budget request.

Thank you.

[The statement follows:]

PREPARED STATEMENT OF SENATOR SUSAN M. COLLINS

Thank you, Chairman Murray. I am delighted to join you as we start the fiscal year 2014 appropriations process under new leadership of both Chairman Mikulski and Vice Chair Shelby, as well as the new members of this subcommittee.

Mr. Secretary, it is nice to see you again. I look forward to continuing to work with you to meet the housing and economic development needs of families and communities throughout the Nation and I look forward to your testimony as we consider the Department of Housing and Urban Development's (HUD's) fiscal year 2014 budget request.

As we begin to construct this spending bill, we continue to face difficult decisions given the fiscal constraints we remain under. Sequestration will make these decisions even tougher. I am also concerned for the public housing authorities who are being forced to reduce spending at the expense of families in need. While sequester cuts have already taken effect, the deficit continues to rise. We must, however, find a careful balance to ensure that the Nation's most vulnerable are provided for.

The President's fiscal year 2014 HUD budget request is $47.6 billion, an increase of nearly $4.2 billion or 6.67 percent above fiscal year 2013 enacted levels. The vast majority of this funding will support the renewals for rental and homelessness assistance. The budget also provides for the investment to revitalize neighborhoods and support economic development in communities throughout the country.

As we prepare the budget for fiscal year 2014, it is critical that we address the ongoing challenges with homelessness, which remains a top priority of mine. Chairman Murray and I continue to share this commitment, particularly for our Nation's veterans. One out of every six men and women in homeless shelters are veterans, and unfortunately, veterans are 50 percent more likely to fall into homelessness compared to other Americans. I am pleased the budget continues funding for HUD's Veterans Affairs Supportive Housing (HUD–VASH) program at $75 million. This level of funding will serve an additional 10,000 veterans nationwide. Veterans' homelessness fell by nearly 7.2 percent from 2011 to 2012, demonstrating that programs like HUD–VASH work.

I continue to support the Homeless Assistance Grants program to prevent and end homelessness. The budget proposes $2.38 billion for this program, which is $575 million over current levels.

In addition to programs that effectively serve the homeless, HUD also provides support for affordable rental housing. The budget proposes nearly $20 billion for the Tenant-Based Rental Assistance program, of which $1.685 billion is available for administrative costs.

Another important issue is the oversight and monitoring of HUD's programs. Mr. Secretary, I want to thank you for your work into the investigation of Maine State Housing Authority's section 8 voucher program. Last year, I requested an investigation into the troubling cases of code violations and other poor conditions that were uncovered in Oxford County. I appreciate the work of your Department, in addition to that of Inspector General Montoya. It is critical that federally subsidized properties comply with all health, safety, and quality standards.

It is bad enough that taxpayers were charged for substandard units, but it is appalling that residents were forced to live in such horrible conditions. The welfare and safety of tenants must be safeguarded, and federally subsidized properties must represent fair value to the tenant and the taxpayer alike.

Nationwide, more than 5.4 million families receive housing assistance through the many programs offered at HUD. Altogether, more than 65 percent of HUD-assisted households are elderly or disabled. I am pleased to see the increased funding levels for the Section 202 Housing for the Elderly program. This program has provided over 400,000 affordable homes for very-low-income elderly individuals through a number of different financing structures in the past. Maine has one of the largest elderly populations in the United States. In fact, Maine has the oldest median age population in the United States.

Finally, the funding level for the Community Development Block Grant (CDBG) program, which is proposed at $2.79 billion is truly disappointing. If enacted, this would reach the lowest level of funding since 1976. With 1,100 grantees served by an estimated 7,000 local governments across the country, CDBG remains the largest and most adaptable community and economic development Federal program for meeting the unique needs within these communities.

These are just some of the many issues we are confronted with on our subcommittee this year. Chairman Murray, I look forward to working with you as we consider HUD's fiscal year 2014 budget request.

Senator MURRAY. Thank you very much. And, Senator Collins, I appreciate the opportunity to work with you again this year on a subcommittee we both care passionately about. It is great to work with you.

Senator Coats, do you have an opening statement?

STATEMENT OF SENATOR DAN COATS

Senator COATS. Madam Chairman, I do.

I thank you. I look forward to serving on this subcommittee with you and our ranking member.

Not to repeat, but I will repeat Senator Collins' point that we are operating during a time where the game has changed. Instead of coming here every year on the Appropriations Committee and saying, "how much more are we going to spend this year?" we are faced with a fiscal crisis which requires us to say, how can we take better care of the taxpayer dollars that are being sent here? How can we better manage our Departments? How can we be more efficient with perhaps less to spend or not as much to spend as we would like? How can we separate the essential from the "well, we would like to do this but can't afford it right now," from the "why are we doing that in the first place?" Or maybe that had a sufficient function going forward at one time, but we just cannot justify that program.

All of this to address the fiscal issue in one of two ways: One, how can we save money and turn it back and reduce our debt and deficit? Second, how can we better transfer this money to essential programs instead of wasting it on programs that do not seem to work very well?

Let me just mention a couple things.

Mr. Secretary, I am not sure my time will allow me to be here to ask this direct question, but I will just put it out there and you can address it in a general way.

In 2012, the Government Accountability Office (GAO) found that the Federal Government is operating 160 separate housing assistance programs and tax expenditures within 20 departments, agencies, costing about $170 billion. Is there room here to eliminate some of this duplication or to consolidate some of this, so that we do not have to have each separate entity here staffed all the way down through the administrative positions, and so forth? Is there room for this type of consolidation and coordination?

Every business in America has had to do this since the 2008 collapse. And when we mentioned sequester, they say, "Five percent, 7 percent? I mean, we have had to do 15 percent. We have had to do 18 percent. But we are a much more leaner, more efficient organization now."

We see that everywhere in the private sector, but we do not see that in the Federal Government.

HUD provided a community development block grant in the amount of $505,000 to a private entity, Sergeant's Pet Care Products, Inc., which specializes in pet shampoo and toothpaste. Now, maybe there is justification for this small business. I do not know. But it is a private company. They are expected to bring in revenue of $140 million in 2012. Why are we giving CDBG grants to private companies who are earning revenues of over $100 million?

And last, according to HUD's own inspector general, for 2012 fiscal year, he said HUD could have put over $3.2 billion to better use and has paid over $1.3 billion in questionable costs. So that is $4.5 billion in public funds that perhaps could have shifted to provide better housing or more effective housing, or not spent at all.

So just in a general way, Mr. Secretary, address the broader question. You do not have to provide it here exactly the details of this particular loan or justify this or that. The larger question of what is HUD doing, what are you doing, to try to make your Department more efficient, more effective, given the scarcity of funds that we have, and the fact that we need to be more careful with the taxpayer dollars. So when you have a chance to address that, I would appreciate it.

And, Madam Chairman, thank you.

Senator MURRAY. Thank you very much.

Senator Blunt.

STATEMENT OF SENATOR ROY BLUNT

Senator BLUNT. Chairman, thank you for conducting the hearing.

Secretary, thank you for being here. I look forward to working with you and Senator Collins on this important subcommittee.

And I have a statement for the record, and I will just submit it for the record.

[The referenced statement was not available at press time.]

Senator MURRAY. Thank you very much.

With that, Secretary Donovan, we will turn it over to your opening statement. And we do have a vote around 11 o'clock, but I think we have sufficient time for your statement and questions from those of us who are here this morning. I will turn it over to you.

SUMMARY STATEMENT OF HON. SHAUN DONOVAN

Secretary DONOVAN. Thank you.

Chairman Murray, Ranking Member Collins, members of the subcommittee, thank you for having me here today.

HOUSING AND COMMUNITIES

HUD's fiscal year 2014 budget proposal will help grow our economy from the middle class out by supporting the ongoing recovery in our housing market and creating Ladders of Opportunity in communities across the country.

As the President said, our economy is strongest when we expand opportunity and reward the hard work of everyone. HUD's budget does this by supporting the creation and retention of 620,000 jobs.

We followed four main principles in creating our 2014 budget. The first was to continue support for the resurgent housing market, while encouraging the return of private capital and rebalancing the Nation's housing finance system.

Today, the housing market is playing a key role in our economic recovery. Rising home values lifted 1.7 million families back above water, and home equity grew by more than $1.6 trillion in 2012.

FEDERAL HOUSING ADMINISTRATION

FHA continues to play an important role in this effort, insuring nearly 1.2 million single-family mortgage loans in 2012. However, due to reverse mortgages and other loans insured during the economic crisis, the fiscal year 2014 budget projects that FHA will need $943 million in support from Treasury. As you know, any decision to draw from the Treasury depends on the actual performance of the fund during the current fiscal year.

We have taken aggressive steps to protect the fund and are already seeing strong results from those efforts, even with stress from the troubled reverse mortgage program and the now banned seller-assisted down payment programs. In fact, while the gross budget authority HUD requests in 2014 is $47.6 billion, a 7-percent increase over the fiscal year 2012 enacted level, offsetting receipts from FHA and Ginnie Mae totaling $14.5 billion bring the cost to the taxpayer to only $33.1 billion, almost 12 percent below the fiscal year 2012 enacted level.

Despite this progress, we continue to take responsible administrative action, and the fiscal year 2014 budget calls on Congress to further assist in stabilizing the fund.

ASSISTED HOUSING

The second principle we used in developing our budget was to protect current vulnerable residents. There are 5.4 million families who live in HUD-assisted housing, a number we have increased by more than 219,000 over the last 3 years through better management.

These households earn just $12,500 a year on average and nearly two-thirds have a member who is elderly or disabled.

Fully funding renewals consumes 84 percent of our proposed budget just to keep current residents in their homes, support homelessness prevention, and provide basic maintenance to public housing.

And again, to echo your words, chairman, this has never been more important with the staggering over 40 percent increase in worst-case housing needs we have seen in just 4 years.

EXISTING PARTNERSHIP

The third principle we followed was to build on existing partnerships, helping to create Ladders of Opportunity while embracing smart, effective, efficient Government. As the President made clear in his State of the Union Address, in too many hard-hit communities, the life chances of a child are determined not by her talents, but by her ZIP Code. The Promise Zones proposed by the President expand investments by HUD, the Departments of Education and

Justice, and other agencies, while coordinating and streamlining this work to maximize impact and reduce costs.

CHOICE NEIGHBORHOODS

The $400 million we have requested for our Choice Neighborhoods program represents a significant increase that will allow us to transform public and assisted housing in our hardest hit neighborhoods and ensure our children are prepared for the 21st century economy.

Building on the success of three rounds of neighborhood stabilization funding, a $200 million Competitive Neighborhood Stabilization Initiative within our community development block grant program will address the needs of neighborhoods that continue to suffer the negative effects of abandonment and foreclosure of privately owned housing.

Our reorganized Office of Economic Resilience, to be located within HUD's Community Development and Planning Division, would offer $75 million in integrated planning and investment grants that support local investments in infrastructure and other development to create jobs and build diverse, resilient economies.

REGULATORY BURDENS

The final principle we used in creating this budget was to increase efficiency, reduce regulatory burdens, and provide flexibility to our partners, allowing them to better manage resources.

SECTION 8 REFORMS

I look forward to working with Congress to enact the section 8 reforms proposed in our budget, which would save approximately $2.8 billion over the next 5 years and streamline outdated statutes governing our public and assisted housing.

Expanding initiatives like the Rental Assistance Demonstration and the Moving To Work program will allow more public housing authorities the flexibility to pilot innovative strategies that will better serve residents, consolidate programs, and save taxpayers money.

TRANSFORMATION INITIATIVES

This budget also continues the transformation initiative, allowing us to propose increased investments in programs we know work and stop funding the ones that do not, and to hold our partners accountable for the funding they receive.

Perhaps the best example of this approach is found in Opening Doors, the administration's plan to end homelessness, which has dramatically reduced chronic and veterans' homelessness over the last 2 years.

VASH VOUCHERS

Because we know these programs save lives as well as taxpayer dollars, our budget proposes 10,000 new VASH vouchers and a significant increase in our homeless assistance grants.

Unfortunately, sequestration seriously threatens our ability to serve families, communities, and even veterans across the Nation with hundreds of thousands likely to lose assistance we have worked so hard to preserve.

While we are attempting to reduce these impacts, there is simply no way to prevent serious damage this year, or the resulting consequences for fiscal year 2014, unless sequestration is reversed with the balanced deficit reduction plan proposed by the President.

PREPARED STATEMENT

I look forward to working with you, both on the fiscal year 2014 budget and on reversing the harmful cuts imposed by sequestration.

Thank you for the opportunity to testify today. I look forward to your questions.

[The statement follows:]

PREPARED STATEMENT OF HON. SHAUN DONOVAN

Thank you, Chairman Murray and Ranking Member Collins, for this opportunity to discuss how the Department of Housing and Urban Development's (HUD's) fiscal year 2014 budget proposal will grow our economy from the middle class out—not from the top down—while supporting the recovery in our housing market and economy. The investments in the Department's programs that this budget makes are essential to delivering on the President's promise to make America a magnet for jobs and manufacturing, equip every American with the skills they need to do those jobs, and ensure that hard work leads to a decent living.

Overall, this budget furthers the Department's mission of supporting home ownership, access to affordable housing free from discrimination, and community development. The 2014 President's budget provides $47.6 billion for HUD programs to support these efforts, in addition to a receipts projection of $14.5 billion—representing a net decrease of $3.2 billion from the 2012 enacted level. Increases are provided to protect vulnerable families and employ proven tools to revitalize neighborhoods with distressed HUD-assisted housing and concentrated poverty. To build more evidence of what works, State and local public housing authorities are offered program flexibilities in exchange for designing and rigorously evaluating innovative programs and policies. The constrained fiscal environment also forced tough choices, including funding reductions to programs that increase the supply of affordable housing.

The Department's budget for fiscal year 2014 follows the roadmap the President has laid out for jumpstarting our economy through educating, innovating, and building—by targeting our investments to the families and geographies that need them the most, and putting American back to work. Specifically, this budget:

Supports the Mortgage Market and Helps Borrowers Who Are at Risk of Foreclosure.—The Administration projects that the Federal Housing Administration (FHA) will insure $178 billion in mortgage loans in 2014, supporting new home purchases and refinanced mortgages that significantly reduce borrower payments. FHA financing was used for 27 percent of home purchase loans in 2011, including an estimated 41 percent of first-time homeowners. FHA's loss mitigation program minimizes the risk of financially struggling borrowers going into foreclosure, and since the start of the mortgage crisis, it has helped more than a million homeowners. Recent increases in FHA premium levels will boost FHA's capital reserves and increase Federal revenues.

The budget also includes $132 million for housing and homeowner counseling through HUD and the Neighborhood Reinvestment Corporation (NeighborWorks). Over half of these funds are dedicated to foreclosure assistance. NeighborWorks' National Foreclosure Mitigation Counseling program has assisted over 1.4 households since its inception in 2008.

Provides Ladders of Opportunity for Anybody Willing To Work Hard and Play by the Rules.—The budget provides $400 million for Choice Neighborhoods to continue to transform neighborhoods of concentrated poverty into opportunity-rich, mixed-income neighborhoods. This funding level, which is $280 million above 2012 enacted, will be used to revitalize HUD-assisted housing and surrounding neighborhoods through partnerships between local governments, housing authorities, nonprofits, and for-profit developers. A portion of these funds will be targeted to designated Promise Zones—high-poverty communities where the Federal Government will partner with local leadership to create jobs, leverage private investment, increase economic activity, reduce violence, and improve educational opportunities. To further support Promise Zones, the budget includes companion investments of $300 million in the Department of Education's Promise Neighborhoods program, $35 million in the Department of Justice's Byrne Criminal Justice Innovation Grants program, and continues to support the Strong Cities, Strong Communities initiative as well as tax incentives to promote investment and economic growth.

Supports Strategic Infrastructure Planning and Investments To Help Make America a Magnet for Jobs.—In addition to the hundreds of thousands of jobs that this budget creates both directly and indirectly, it makes an essential contribution to the Administration's broader effort to discourage outsourcing and encourage "insourcing." Specifically, 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, and transportation networks that move goods and people efficiently—which is why this budget includes funding for the Office of Economic Resiliency which, as part of the Administration's multiagency partnership between HUD, the Department of Transportation, and the Environmental Protection Agency, will administer $75 million in Integrated Planning and Investment Grants. These grants will create incentives for communities to develop and implement comprehensive housing and transportation plans, such as updates to building codes, land use, and zoning ordinances that result in more resilient economic development, improve housing supply response to demand, and increase affordable housing near public transit. This funding, which builds upon the progress made through Sustainable Communities program, would support about 30 additional regional and neighborhood planning and implementation grants to enable communities to plan for their economic future. This funding embodies the President's commitment to being a new kind of Federal partner to regions, States, and localities as they tackle planning and economic development challenges in the 21st century.

Of course, smart planning requires sustained follow-through. That is why HUD is committed to ensuring that its core community and housing development work contributes to more and better transportation choices; promotes equitable, affordable housing; helps communities address the lingering neighborhood impacts of the foreclosure crisis; and aligns Federal policies and funding to remove barriers to local collaboration. The budget provides $3 billion for the Community Development Block Grant (CDBG) program and neighborhood stabilization activities, and proposes reforms to better target CDBG investments to address local community development goals. This funding level includes $200 million in new competitive funds to continue mitigating the impacts of the foreclosure crisis. This funding will provide essential new resources to help communities hardest hit by the foreclosure crisis while creating jobs through rehabilitating, repurposing, and demolishing vacant and blighted properties. The budget also maintains its support for the proposed $15 billion Project Rebuild program, which will leverage private capital to bring the benefits of neighborhood stabilization to national scale.

Protects the Vulnerable Recipients of HUD Rental Assistance and Makes Progress on the Federal Strategic Plan To End Homelessness.—The budget includes $20 billion for the Housing Choice Voucher program to help more than 2.2 million low-income families afford decent housing in neighborhoods of their choice. This funding level supports all existing vouchers and provides 10,000 new vouchers targeted to homeless veterans. The budget also includes $10.3 billion for the Project-Based Rental Assistance program to maintain affordable rental housing for 1.2 million families, and provides $6.6 billion in operating and capital subsidies to preserve affordable public housing for an additional 1.1 million families.

The budget provides $2.4 billion for Homeless Assistance Grants, $480 million above the 2012 enacted level. This funding maintains the approximately 325,000 HUD-funded beds that assist the homeless nationwide and expands rapid re-housing and permanent supportive housing. Backed with new data and emerging best practices across the United States, this evidence-based investment will make further progress towards the goals laid out in the Federal Strategic Plan to End Homelessness.

Puts HUD-Subsidized Public and Assisted Housing on a Financially Sustainable Path.—This budget also recognizes that we can no longer tolerate a federally supported rental housing system that is "separate and unequal"—one which expects public housing authorities (PHAs) to house over 1 million families in public housing while subjecting them to overly burdensome regulation and denying them access to private capital available to virtually every other form of rental housing. To bring the public housing program toward mainstream real estate financing and management practices and begin to address the $26 billion in capital needs, the Department will continue to implement the Rental Assistance Demonstration (RAD) enacted in 2012. At the same time, the budget provides $10 million for a targeted expansion of RAD to public housing properties in high-poverty neighborhoods, including designated Promise Zones, where the Administration is also supporting comprehensive revitalization efforts.

Improves the Way Federal Dollars Are Spent and Builds Evidence of What Works.—The budget proposes to scale up the Moving To Work (MTW) program, which gives high-performing State and local public housing authorities (PHAs) various flexibilities in their use of Housing Choice Voucher and public housing funds. In exchange for this flexibility, PHAs will help design and test innovative policies to support self-sufficiency and other positive outcomes for families, streamline and consolidate program delivery, and reduce long-term costs. In addition, PHAs will report on outcomes associated with their MTW activities, and those that choose to implement work requirements, time limits on assistance, or major rent reform initiatives will participate in rigorous evaluations.

The budget also modernizes the Housing Opportunities for Persons With AIDS (HOPWA) program to better reflect the current case concentration and understanding of HIV/AIDS and ensure that funds are directed in a more equitable and effective manner. This update includes a new formula that will distribute HOPWA funds based on the current population of people living with HIV/AIDS, fair market rents, and poverty rates in order to target funds to areas with the most need. It also makes the program more flexible, giving local communities more options to provide targeted, timely, and cost-effective interventions. The budget's $332 million investment in HOPWA, in combination with the proposed modernization, will assist local communities in keeping individuals with HIV/AIDS housed, making it easier for them to stay connected to treatment, and therefore improving health outcomes for this vulnerable population.

Makes Tough Choices.—The budget provides $950 million for the HOME Investment Partnerships Program, 5 percent below the 2012 enacted level. At this funding level, HOME will provide grants to State and local governments to supply almost 40,000 additional units of affordable housing for low-income families. This funding reduction is mitigated by the investment of $1 billion in mandatory funding for the Housing Trust Fund to finance the development, rehabilitation, and preservation of affordable housing for extremely low income families.

The budget provides a total of $526 million for the Housing for the Elderly and Housing for Persons with Disabilities programs, $13.6 million below the 2012 enacted level. This funding level will support all 150,000 existing units in these programs, but limits new construction to $40 million for additional supportive housing units. These investments directly support research that will build our understanding of the intersection between supportive housing and healthcare costs, and help identify what works best in allowing seniors to age-in-place.

Reforms Government So That It's Leaner, Smarter, More Transparent, and Ready To Succeed.—The American economy of the future requires a Federal Government that is efficient, streamlined, and transparent. As such, the budget proposes reforms to HUD rental assistance programs that would save nearly $400 million in fiscal year 2014 without reducing the number of families served—by streamlining programs and reforming policies. Moreover, this budget once again calls for the flexible use of resources through the Transformation Initiative, which the Department will use to invest in technical assistance to build local capacity to safeguard and effectively invest taxpayer dollars; conduct innovative research, evaluations of program initiatives and demonstration programs so we can fund what works and stop funding what doesn't; and upgrade the IT infrastructure that tracks and monitors our programs.

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 serve millions of families in thousands of communities nationwide, helping to make America a magnet for jobs, and ensuring that our workers have the skills they need for those jobs. Consistent with its budget proposals in the first term, HUD's fiscal year 2014 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. 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

This Administration entered office confronting the worst economic crisis since the Great Depression—as mortgages were sold to people who couldn't afford or understand them, while banks packaged them into complex securities that they made huge bets on—and bonuses with—other people's money. And while the largest factors contributing to this crisis were market driven, the American people have turned to Congress and the Administration for leadership and action in righting our Nation's housing market. HUD remains firmly committed to working together with communities and individuals to cope with these unprecedented challenges.

Responding to the Market Disruption

The Federal Housing Administration (FHA) and Government National Mortgage Association (GNMA) continue to have a significant impact on the Nation's economic recovery. The activities of the Federal Government are critical to both supporting the housing market in the short term and providing access to homeownership opportunities over the long term, and doing both in a way that minimizes risks to taxpayers.

In 2014, HUD is requesting $400 billion in loan guarantee authority for the Mutual Mortgage Insurance Fund, which will provide an estimated 1.2 million single-family mortgages (at a projected $199.3 billion in loan volume) and $30 billion in loan guarantee authority for the General and Special Risk Insurance Fund, which will provide an estimated 273,000 units in multifamily housing properties and an estimated 75,700 beds in healthcare facilities. The need for this investment is clear as FHA has stepped up in recent years to address the unprecedented challenges wrought by the housing crisis, playing an important countercyclical role that has offered stability and liquidity throughout the recession. While a recovery of the housing market is currently underway, FHA continues to act as a crucial stabilizing element in the market, and to assure ongoing access to credit for qualified first-time, low-wealth or otherwise underserved borrowers. However, FHA's expanded role is and should be temporary.

FHA's share of the mortgage market has gone from a low of 3.1 percent of loan originations in 2005, up to a peak of 21.1 percent in 2010, and more recently down to 16.5 percent in the 4th quarter of 2012 (U.S. Housing Market Conditions Report, 4th Quarter 2012). In fact, the number of FHA single family loan endorsements has declined to levels comparable to those seen in fiscal years 2002 and 2003, when FHA's market share was lower than it is today, indicating that FHA's current slightly elevated market share is primarily due to a substantial decrease in the size of the total mortgage market rather than exceptionally high FHA loan volumes. As the market continues to recover and private capital returns at more normal levels, FHA's role will naturally recede.

As has been true throughout its history, FHA is particularly important to borrowers that the conventional market does not adequately serve, including qualified borrowers who would otherwise be shut out of the mortgage market. Fully 60 percent of all African American and Hispanic homebuyers using mortgages rely upon FHA financing and over 30 percent of all FHA-insured homebuyers are minorities. According to the latest Home Mortgage Disclosure Act data, half of all African Americans who purchased a home in 2011, and 49 percent of Hispanics, did so with FHA financing.

Redoubling Efforts To Keep Homeowners in Their Homes

While there is work still to be done, HUD is proud of the progress this Administration has made in tackling ongoing foreclosure challenges. Between April 2009 and February 2013, more than 6.4 million foreclosure prevention actions were taken—including nearly 1.7 million FHA loss mitigation and early delinquency interventions and 1.5 million homeowner assistance actions through the Making Home Affordable program, including more than 1.1 million permanent modifications through the Home Affordable Modification Program (HAMP)—saving these households an estimated $18.5 billion in monthly mortgage payments.

As part of the Administration's commitment to help responsible homeowners stay in their homes, we have actively sought to use our current programs and authorities to make homeownership sustainable for millions of American families. Examples of our efforts include:

—*Streamline Refinance.*—An option that allows borrowers with FHA-insured loans who are current on their mortgage to refinance into a new FHA-insured loan at today's low interest rates without requiring additional underwriting, permitting these borrowers to reduce their mortgage payments. This program benefits current FHA borrowers—particularly those whose loan value may exceed the current value of their home—and by lowering a borrower's payment, also reduces risk to FHA. And, because we see potential for more widespread use of this product, FHA made changes to the way in which streamline refinance loans are displayed in the Neighborhood Watch Early Warning System (Neighborhood Watch) to encourage lenders to offer this product more widely to homeowners with FHA-insured mortgages.

—*Changes to FHA's Loss Mitigation Waterfall.*—A mortgagee letter published on November 16, 2012, outlined changes to FHA's loss mitigation home retention options. One of the key elements of this update was moving FHA's Home Affordable Modification Program (HAMP) product up in FHA's loss mitigation waterfall so servicers could more quickly offer deeper payment relief to struggling FHA borrowers, resulting in an increase in the number of borrowers being able to retain their homes.

—*Housing Counseling.*—In 2014, HUD is requesting $55 million in housing counseling assistance, to improve access to quality affordable housing, expand homeownership opportunities, and preserve homeownership, all of which are especially critical in today's economic climate. With this funding, HUD estimates that 2,650 HUD-approved counseling agencies employing an estimated 8,000 newly certified housing counselors, will assist a total of 2.5 million renters and owners. HUD-approved counselors help clients learn about purchasing or refinancing a home; rental housing options; reverse mortgages for seniors; foreclosure prevention; loss mitigation; preventing evictions and homelessness; and moving from homelessness to a more stable housing situation. In 2012, 2,410 HUD-approved housing counseling agencies, with grant funds from HUD and other funding sources, assisted over 1.9 million renters and owners.

HUD's new Office of Housing Counseling has several initiatives to ensure borrowers have access to all rights and remedies afforded to them to stay in their homes. HUD has worked closely with interested States to determine effective ways in which funds from the National Mortgage Servicing Settlement can be used to expand housing counseling resources, resulting in more than $300 million in settlement funds committed to housing counseling or legal services for affected borrowers. HUD-approved housing counseling agencies continue to provide foreclosure prevention services, reaching 774,000 families in fiscal year 2012. In addition, FHA is exploring ways to further integrate housing counseling into its loss mitigation program, offering distressed FHA borrowers additional resources with which to assess their options and make decisions appropriate to their situation.

—*Short Refinance Option.*—In 2010, FHA made available an option that offers underwater non-FHA borrowers, who are current on their existing mortgage and whose lenders agree to write off at least 10 percent of the unpaid principal balance of the first mortgage, the opportunity to refinance into a new FHA-insured mortgage. FHA made enhancements to the program in March of last year and announced an extension to the expiration date of the program in order to increase the number of borrowers who will benefit from this initiative.

—*Strengthening FHA and Paving the Way for Private Capital To Return.*—The President's budget shows that FHA, while still under stress from legacy loans, has made significant progress and is on a sound fiscal path moving forward. Like nearly all mortgage market institutions, FHA sustained significant losses due to the precipitous fall in the housing market and home prices, and is putting additional funds aside this year to cover those legacy losses. But, again, like most mortgage lenders, recent and future books of mortgage business are expected to bring healthy gains.

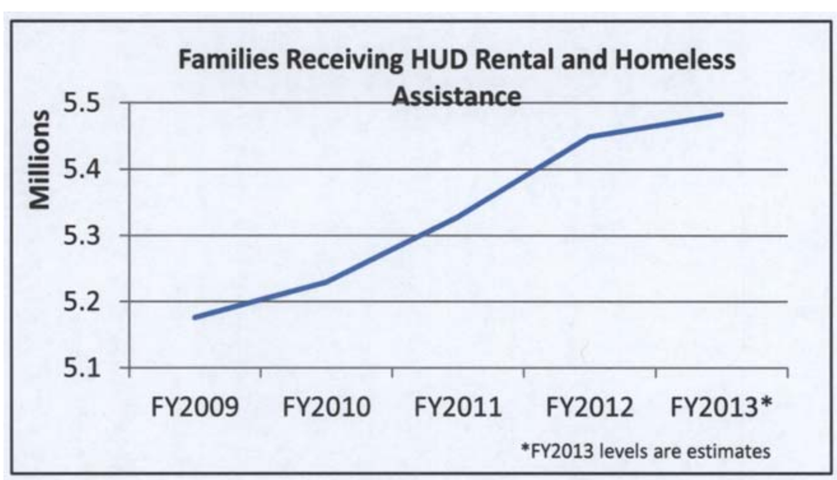
Throughout the economic crisis, as the FHA's fiscal health faced challenges, this Administration took swift and effective action to protect the FHA and the American taxpayer alike, as FHA continued to fulfill its dual mission of supporting the housing market during tough times and providing access to homeownership for underserved populations. FHA is currently insuring the strongest loans in its history. In contrast to legacy loans, and thanks in large part due to changes the Administration has put in place regarding pricing, lender enforcement, and risk reduction, the books of business FHA has insured since 2010 are vastly superior to any others from recent years, as measured by early delinquencies and other metrics. In addition, the Administration has raised annual insurance premiums for most FHA mortgages by 0.8 percentage points, greatly increasing revenue for the FHA fund. And healthier house prices have reduced FHA losses on defaulted mortgages.

Due to the higher quality and large volume of current loans, we project FHA will generate $18 billion in receipts during fiscal year 2013, including $3 billion generated from the new premium increase that went into effect April 1, 2013, and reversal of a policy that caused FHA to forfeit collection of mortgage insurance premium (MIP) after a loan reached 78 percent of its original principal balance. Further, as a result of these same changes, the fiscal year 2014 budget projects FHA receipts of almost $13 billion, even as FHA market share and loan volume continues to be reduced (down to 13.9 percent according to U.S. Housing Market Conditions Report, 3rd quarter 2012).

For FHA's legacy loans, the President's budget forecasts the FHA Mutual Mortgage Insurance (MMI) Fund, which provides the fiscal capital to support FHA's single family and reverse mortgage guarantees, will use $943 million of its mandatory appropriation authority to supplement its reserves at the end of fiscal year 2013. The MMI Fund currently has approximately $32 billion in cash available to pay claims, so this is not a cash problem; it is one of setting the right size of loan loss reserves aside. The $943 million figure is based on an annual Office of Management and Budget (OMB) re-estimate of the reserves FHA will need to hold as of September 30, 2013, for the payment of expected losses over the next 30 years on its portfolio of guaranteed loans as of last September, based upon Federal Credit Reform Act (FCRA) scoring. This potential appropriation is largely due to the existing reverse mortgage (HECM) portfolio. This product, particularly as it has been structured to date, is sensitive to home prices and economic conditions. This results in a negative value of $5.248 billion and a disproportionately negative impact to the Fund from the HECM program. The actual need for a mandatory appropriation from the Treasury General Fund to the MMI fund will not be determined until September 2013, and will be based on FHA's realized revenues through the end of the fiscal year. Notably, any mandatory appropriation to FHA would not involve approval from Congress, as all Federal loan programs have this standing authority. As we consider this potential appropriation, let us not forget that FHA played a crucial, countercyclical role in bringing the housing market from the brink of collapse to a place where it is positive and growing again.

GOAL 2: MEET THE NEED FOR QUALITY, AFFORDABLE RENTAL HOMES

In an era when more than one-third of all American families rent their homes and over 8.5 million unassisted families with very low incomes spend more than 50 percent of their income on rent and/or live in severely inadequate conditions, it is more important than ever to provide a sufficient supply of affordable rental homes for low-income families—particularly since, in many communities, affordable rental housing does not exist without public support. HUD's fiscal year 2014 budget maintains HUD's core commitments to providing rental assistance to some of our country's most vulnerable households as well as distributing housing, infrastructure, and economic development funding to States and communities to address their unique needs. Overall, 84 percent of HUD's total fiscal year 2014 budget authority requested will provide rental assistance to over 5.4 million residents of HUD-subsidized housing, including public housing and HUD grants to homeless assistance programs. And, I am proud to say that, despite an era of challenging budgets, we have increased the number of families served through our rental assistance programs every year.



Detailed data shows how vulnerable these families are to the economic downturn. In HUD's core rental assistance programs, including tenant-based rental assistance (TBRA), public housing and project-based rental assistance (PBRA): 72 percent of families are extremely low-income (below 30 percent of area median income) and an additional 20 percent are very low-income (below 50 percent of area median income). The devastating effect of the tough economic environment on the housing circumstances of poor Americans was underscored this year, when HUD released its latest 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 43.5 percent in worst case needs renters between 2007 and 2011. This is the largest increase in worst case housing needs over a 4-year period in the quarter-century history of the survey. The need for HUD investments in this area is clear.

Preserving Affordable Housing Opportunities in HUD's Largest Programs

This budget provides $20 billion for HUD's section 8 TBRA program, which is the Nation's largest and preeminent rental assistance program for low-income families. For over 35 years it has served as a cost-effective means for delivering safe and affordable housing in the private market. This 2014 funding level is expected to assist approximately 2.2 million families by renewing existing vouchers and issuing new incremental vouchers to homeless veterans.

The budget also provides a total of $6.6 billion to operate public housing and modernize its aging physical assets through the public housing operating ($4.6 billion) and capital ($2 billion) funds, a critical investment that will help approximately 1.1 million extremely low- to low-income households obtain or retain housing. Similarly, through a $10.3 billion request in funding for the PBRA program, the Department will provide rental assistance funding to privately owned multifamily rental housing projects to serve over 1.2 million families nationwide.

Reducing Administrative Burdens and Increasing Efficiency

This budget recognizes the need to simplify, align, and reform programs to reduce administration burdens and increase efficiency across programs by:

—*Enabling PHAs To Combine Operating and Capital Funds.*—To both simplify the program and reduce the administrative burden on State and local public housing authorities, the budget provides all PHAs with full flexibility to use their operating and capital funds for any eligible capital or operating expense.

—*Providing Flexibility for Public Housing Authorities To Improve Supportive Services for Assisted Households.*—The budget proposes streamlining and flexibility measures to help PHAs improve supportive services for assisted families. The Family Self-Sufficiency (FSS) program will be consolidated and aligned to enable PHAs to more uniformly serve both TBRA and public housing residents. This program aims to connect residents to resources and services to find and retain jobs that lead to economic independence and self-sufficiency. In addition, the budget authorizes PHAs to use a portion of their public housing and TBRA funding to augment case management and supportive services coordination provided through FSS or provide other supportive services to increase opportunities for residents.

—*Expanding the Moving To Work (MTW) Program.*—The budget proposes to scale up the Moving To Work (MTW) program, which gives high-performing State and local public housing authorities (PHAs) various flexibilities in their use of Housing Choice Voucher and public housing funds. In exchange for this flexibility, PHAs will help design and test innovative policies to support self-sufficiency and other positive outcomes for families, streamline and consolidate program delivery, and reduce long-term costs. In addition, PHAs will report on outcomes associated with their MTW activities, and those that choose to implement work requirements, time limits on assistance, or major rent reform initiatives will participate in rigorous evaluations.

Rebuilding Our Nation's Affordable Housing Stock

Over the last 75 years, the Federal Government has invested billions of dollars in the development and maintenance of public and multifamily housing, which serve as crucial resources for some of our country's most vulnerable families. Despite this sizable Federal investment and the great demand for deeply affordable rental housing, we continue to see a decline in the number of available affordable housing units. Unlike other forms of assisted housing that serve very similar populations, the public housing stock is nearly fully reliant on Federal appropriations from the Capital Fund to make capital repairs. Funding and regulatory constraints have impaired the ability for these local and State entities to keep up with needed lifecycle improvements. The most recent capital needs study of the public housing stock, completed in 2010, estimated the backlog of unmet need at approximately $26 billion, or $23,365 per unit. Available funding is vastly insufficient to meet accruing needs of approximately $3 billion per year. Under the strain of this backlog, and without financing tools commonly available to other forms of affordable housing, the public housing inventory loses an average of 10,000 units annually through demolitions or dispositions.

Rental Assistance Demonstration

In addition to the public housing stock, the Rental Assistance Demonstration (RAD) program targets certain "at-risk" HUD legacy programs. The 24,000 units assisted under section 8 Moderate Rehabilitation (MR) are limited to short-term renewals and constrained rent levels that inhibit the recapitalization of the properties. The approximately 21,000 units assisted under Rent Supplement (RS) and Rental Assistance Program (RAP) have no ability to retain long-term project-based assistance beyond the current contract term. As a result, as their contracts expire, we can no longer depend on these projects to be available as affordable housing assets.

Conversion to long-term section 8 rental assistance, as permitted under RAD, is essential to preserving these scarce affordable housing assets and protecting the investment of taxpayer dollars these programs represent. Long-term section 8 rental assistance allows for State and local entities to leverage sources of private and public capital to rehabilitate their properties. While the Department expects and continues to process public housing conversions of assistance without additional subsidy, HUD requests $10 million in fiscal year 2014 for the incremental subsidy costs of converting assistance under RAD for very limited purposes. Such funding will be targeted only to public housing projects that are: (1) not feasible to convert at current funding levels; and (2) located in high-poverty neighborhoods, including designated Promise Zones, where the Administration is supporting comprehensive revitalization efforts. The Department estimates that the $10 million in incremental subsidies will support the conversion and redevelopment of approximately 3,300 public housing units that would not otherwise be feasible to convert and sufficiently stabilize over the long-term, while helping to increase private investment in the targeted projects and surrounding neighborhoods.

In addition to the funding request, each of the legislative requests in the 2014 budget for RAD are designed to allow for maximum participation by those PHAs and owners whose current funding levels are sufficient for conversion. In the first component of RAD, an increase in the 60,000 unit cap to 150,000 units, and the exclusion of section 8 MR properties from the cap will both allow for a greater portion of both the public housing and MR stock that can convert at no cost to the Federal Government to participate in the demonstration.

Small Building and Housing Finance Agency Securitization

Nearly a third of the Nation's renters, more than 20 million households, live in small, unsubsidized housing. These 5- to 49-unit properties tend to be owned by small businesses—the engines of our communities—and are typically more affordable to low- and moderate-income families. But these properties are at risk of continued disinvestment because they can be expensive to finance. Small building owners are less likely than other multifamily property owners to be able to secure financing to make repairs and improvements. Small properties are less likely to have mortgage financing (86 percent of large multifamily properties are mortgaged, compared to 61 percent of small multifamily properties). Just 14 percent of all fiscal year 2010 FHA-insured properties were for projects with fewer than 50 units.

To address this problem, the fiscal year 2014 budget includes a legislative provision to support small building finance, and to strengthen the Risk Share program as a rental finance tool, seeks Congressional authority for Ginnie Mae to guarantee securities containing FHA Multifamily Risk Share loans, thereby increasing liquidity and decreasing cost of capital. This proposal would apply to both State and local Housing Finance Agency Risk Share lenders under section 542(c) and new Risk Share lending under section 542(b). The proposal would also amend section 542(b) of the statute to allow for flexibility in how affordability is determined in order to make it a more effective tool to recapitalize existing naturally affordable 5-49 unit rental properties.

Increasing the Production of Affordable Housing Capital Projects

In addition to developing tools to address the growing capital needs of America's public housing stock, HUD is committed to expanding the supply of affordable rental homes in safe, mixed-income communities that provide access to jobs, good schools, transportation, and most importantly, economic self-sufficiency. Accordingly, in fiscal year 2013 HUD is working together with its partners to identify ways to make the Low Income Housing Tax Credit (LIHTC) program a more flexible and nimble tool for the creation and preservation of affordable housing. As the primary tool of the Federal Government for developing and rehabilitating affordable rental housing, the LIHTC program is administered by State agencies with assistance and guidance from the Treasury Department and the Internal Revenue Service. It attracts capital to low-income rental housing by satisfying some of the Federal income tax obligations of investors in certain low-income rental properties.

Since its addition to the tax laws in 1986, the LIHTC program has been used to create 1.8 million in affordable rental-housing units across the country. Annually, the program supports 95,000 jobs and generated $2.7 billion in State, local, and Federal revenues. In fiscal year 2014, as part of an ongoing effort to better align Federal rental programs, HUD, the Departments of Treasury and Agriculture, the Domestic Policy Council (DPC), the Office of Management and Budget (OMB), and the National Economic Council (NEC) will continue partnering to allow greater flexibility to State and local agencies that administer LIHTC programs, as well as to developers and investors, to continue to enable the creation of affordable housing in markets where it is needed the most.

Specifically, the revenue provisions of the 2014 budget update several revenue proposals that were included in the 2013 budget, and the budget also introduces two new proposals:

—A new proposal for Private Activity Bond Conversion authority that will create much needed flexibility in how States implement the LIHTC program. Specifically, this request will allow States to convert a portion of their tax-exempt Private Activity Bond authority (volume cap) into allocated (so-called 9 percent) LIHTCs to accomplish several goals. First, for many complex preservation projects this proposal eliminates the need for going through unnecessary bond issuance procedures, which reduces transaction costs. Second, not only does the proposal allow States to increase their pool of 9 percent credits, but it brings more projects into the competitive LIHTC allocation process. This effectively gives States more authority to better prioritize projects with limited resources. Third, it would let States avail themselves of the greater flexibility that they have to increase eligible basis (and thus to increase credits) for high-priority projects that are subject to the LIHTC allocation cap (as compared with projects subject to the tax-exempt bond cap).

—A new proposal for a Selection Criterion for Preservation of Affordable Housing. Adding this criterion to Qualified Action Plans under IRC Sec. 42(m)(1)(C) will encourage States to consider how to address the preservation needs of affordable housing.

—A modification and permanent fix to the Congress' temporary 9 percent credit floor provisions in HERA and the American Taxpayer Relief Act of 2012. This proposal to improve the computation of allocated credit rates will revise the present value formula for allocated LIHTCs to increase the annual credit percentage rate and more accurately reflect market practice.

—An income averaging proposal from the President's fiscal year 2013 budget that would encourage a greater range of incomes in LIHTC-supported affordable housing by allowing developers to choose an income-limitation requirement that would be satisfied if households in the low-income units have an average income no greater than 60 percent of AMI, with no household above 80 percent AMI. An additional provision would allow certain existing tenants to remain in residence without impairing the developer's entitlement to LIHTCs.

—A LIHTCs earned by Real Estate Investment Trusts (REITs) proposal from the President's fiscal year 2013 budget that is designed to diversify the pool of investors for LIHTCs and to increase the overall demand for LIHTCs. The proposal would allow a REIT that earns LIHTCs to provide a tax benefit to its investors by paying them tax-exempt dividends in an amount almost triple the amount of the REIT's LIHTCs.

Finally, the recent Worst Case Housing Needs report underscores what has been the case since well before the recent recession, namely, that extremely low-income renters face the most severe housing shortage and cost burden of any Americans. The 2014 budget once again proposes $1 billion in mandatory appropriations for the Housing Trust Fund (HTF) to address this critical shortage of housing where it is most desperately needed. Enacted in 2008, the HTF 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 time has come for Congress to provide this crucial funding.

GOAL 3: UTILIZE HOUSING AS A PLATFORM FOR IMPROVING QUALITY OF LIFE

Stable housing provides an ideal platform for delivering a wide variety of health and social services to improve economic, health, and broad-based societal outcomes. For some, housing alone is sufficient to ensure healthy outcomes, while others require housing with supportive services to assist with activities of daily living or long-term self-sufficiency, as well as proximity to crucial services. HUD's fiscal year 2014 budget acknowledges this reality by making critical investments in housing and supportive services, and partnering with other Federal agencies to maximize resources and best practices. Moreover, these investments will save money in the long term, by avoiding overuse of expensive emergency and institutional interventions.

Preventing and Ending Homelessness, Serving Our Nation's Most Vulnerable

Nowhere is the relationship between housing and supportive services clearer than in the successful efforts in communities around the country to address homelessness, which have led to nearly 20 percent reductions in veterans homelessness and a 10 percent reduction in chronic homelessness over the past 2 years.

Additionally, this work has 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's budget once again invests in this critical effort, by providing $2.381 billion in Homeless Assistance Grants, including competitive programs that annually serve over 1.5 million homeless families and individuals. This includes funding for the Emergency Solutions Grants program, which will continue the work of the Homelessness Prevention and Rapid Re-Housing Program (in the form of a $60 million set aside)—funded by the Recovery Act—that in the last 3 years alone has helped prevent or end homelessness for over 1.4 million people nationwide.

Moreover, HUD continues to focus on the unique needs of homeless veterans through both its targeted homeless programs and its mainstream housing programs using successful methods and interventions. Currently, an estimated one out of every six men and women in our Nation's homeless shelters are veterans, and veterans are 50 percent more likely to fall into homelessness compared to other Americans. HUD is committed to providing affordable housing units to this unique homeless population, and has partnered with the Departments of Health and Human Services (HHS) and Veterans Affairs (VA) to develop targeted approaches to serve the homeless veteran populations. Accordingly, this budget includes $75 million for HUD's Veterans Affairs Supportive Housing (HUD–VASH) program, which combines tenant-based voucher assistance with case management and clinical services tailored to veterans and their families. This funding will provide 10,000 new vouchers to help veterans move from our streets into permanent supportive housing, in addition to the nearly 48,000 already allocated HUD–VASH vouchers, as well as the 10,000 vouchers that will be awarded through the fiscal year appropriation.

Investing in Leveraging and Serving Our Most Vulnerable

This budget provides a total of $526 million for the Housing for the Elderly and Housing for Persons with Disabilities programs, which includes $40 million to support 4,100 additional supportive housing units. Doing more with less, the budget proposes reforms to the Housing for the Elderly program to target resources to help those most in need, reduce the up-front cost of new awards, and better connect residents with the supportive services they need to age in place and live independently.

Historically, HUD has provided both capital advances and operating subsidies to nonprofit sponsors to construct and manage multifamily housing for low-income people with disabilities. In an effort to maximize the creation of new affordable units in a time of funding restraints, in fiscal year 2012 HUD began providing operating assistance to State housing agencies that formed partnerships with State healthcare agencies for service provision to low-income persons with disabilities. These funds are used to set aside supportive units for this target population in affordable housing complexes whose capital costs are funded through Low-Income Housing Tax Credits, HOME funds, or other sources. Investing section 811 funds under this authority allows HUD to rely on the expertise of the State housing agencies to administer the award and on the State healthcare agency to identify the most critical population to be served and guarantee the delivery of appropriate services. In fiscal year 2014, HUD is requesting similar authority for the Section 202 program. Drawing on lessons learned from implementation in the section 811 program, HUD will take advantage of efficiencies inherent in these same agencies' oversight responsibilities for tax credits, HOME funds or similar housing funding.

GOAL 4: BUILD INCLUSIVE SUSTAINABLE COMMUNITIES FREE FROM DISCRIMINATION

The American economy suffers when significant numbers of its labor force experience individualized or systemic discrimination, or when families live in isolated neighborhoods of concentrated poverty. An American economy built to last requires an increased supply of affordable rental homes in safe, mixed-income communities that provide access to jobs, good schools, transportation, high-quality services, and most importantly, economic self-sufficiency. As such, HUD's fiscal year 2014 budget puts communities in a position to plan for the future and draw fully upon their resources, most importantly their people.

Each year HUD dedicates approximately 15 percent of its funds to the capital costs of housing and economic development projects throughout the country. Through this investment, 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. Programs such as the Community Development Block Grant (CDBG) and Choice Neighborhoods provide funding for locally driven solutions to overarching economic development challenges in areas of need. As with HUD's rental assistance programs, HUD's capital grants—including the Public Housing Capital Fund, Choice Neighborhoods, CDBG, and HOME—are focused on assisting areas of great need, including communities with high unemployment.

Preserving HUD's Major Block Grant Programs for Community Development and Housing

Through both formula and competitive grants, HUD has partnered with local organizations and State and local governments to fund innovative solutions to community development challenges. Underpinning these partnerships is the fundamental philosophy that local decisionmakers are best poised to drive a cohesive development strategy, based on a keen perception of local needs and priorities. In fiscal year 2014, HUD is requesting a total of $3.14 billion in funding for the Community Development Fund. These programs aim to support economic development initiatives and projects that demonstrate the ability to connect private sector growth to some of our country's most distressed citizens and communities.

As part of CPD programming, the Community Development Block Grant (CDBG) remains the largest and most adaptable community and economic development program in the Federal portfolio for meeting the unique needs of States and local governments. Since its inception in 1974, CDBG has invested over $135 billion in economic development at the local level, investing in infrastructure, providing essential public services and housing rehabilitation, and creating jobs primarily for low-and moderate-income families. In fiscal year 2014, HUD is requesting that $2.8 billion in CPD funds be dedicated to the CDBG formula program. Altogether, CDBG funding annually reaches an estimated 7,000 local governments across the country, in communities of all shapes and sizes.

To begin to respond to concerns that CDBG formula funds need to be better targeted to need and be used more effectively, the budget proposes several reforms to the program. The budget includes changes to establish a minimum CDBG grant threshold and eliminate the community "grandfathering" provision. This will ensure that communities receive grants large enough to be effective in advancing the goals of the program. Local governments affected by these changes would not lose access to CDBG funding; funding would be available through an urban county or State-administered CDBG program. In addition to better targeting CDBG formula funds, the budget provides $200 million in community development funding for a new competitive grant program targeted to areas hardest hit by the foreclosure crisis and specific activities that support neighborhood stabilization. Where appropriate, these grants will be linked to the above-mentioned Promise Zones initiative. HUD will seek input from stakeholders over the coming months regarding further programmatic changes that would improve the targeting of CDBG formula funds and strengthen their accountability and performance.

Often, CDBG dollars alone are not sufficient to complete crucial economic development projects that communities desperately need. In those instances, HUD offers another potent public investment tool in the form of the Section 108 Loan Guarantee program. Section 108 is the loan guarantee provision of the CDBG program and allows States and local governments to leverage their CDBG funds into federally guaranteed loans in order to pursue large-scale physical and economic investment projects that can revitalize entire neighborhoods or provide affordable housing to low- and moderate-income persons. In fiscal year 2014, HUD is requesting Section 108 loan guarantee authority of $500 million and is proposing to implement a fee-based program that will eliminate the need for budget authority to cover the program's credit subsidy.

Assisting Native Americans and Native Hawaiians

Through innovative programming, HUD has found new ways to partner with American Indian and Alaska Native tribal governments to help these communities craft and implement sustainable, locally driven solutions to economic development challenges. HUD recognizes the right of Indian self-determination and tribal self-governance, and has fostered partnerships that allow tribal recipients the flexibility to design and implement appropriate, place-based housing programs according to local needs and customs. In most of these communities, housing and infrastructure needs are severe and widespread, disconnected from transportation networks and isolated from key community assets including jobs, schools and healthcare facilities. In fiscal year 2014, HUD is requesting a total of $739 million to fund programs that will directly support housing and economic development in American Indian, Alaskan Native, and Native Hawaiian communities nationwide, including:

—$650 million for the Indian Housing Block Grant program, which is the single largest source of funding for housing on Indian tribal lands today

—$70 million for Indian Community Development Block Grants, a flexible source of grant funds for federally recognized tribes or eligible Indian entities, requested within the Community Development Fund.

—$13 million for Native Hawaiian Housing Block Grant program, to develop homeownership units as well as support the prevention of foreclosures and the promotion of responsible homeownership.

—$6 million for the Indian Housing Loan Guarantee Fund.

Transforming Neighborhoods of Poverty

The President has made it clear that we must build our economy from the middle class out. But that necessity is imperiled when a fifth of America's children live in poverty, at a cost of $500 billion per year—fully 4 percent of GDP—due to reduced skills development and economic productivity, increased later life crime, and poor health, and a growing population lives with the problems of concentrated neighborhood poverty—high unemployment rates, rampant crime, health disparities, inadequate early care and education, struggling schools, and disinvestment—all of which isolate them from the global economy.

That's why HUD's fiscal year 2014 budget provides $400 million for the proven tools in the Choice Neighborhoods Initiative, to continue transformative investments in high-poverty neighborhoods where distressed HUD-assisted public- and privately owned housing is located. Choice Neighborhoods—along with RAD—is an essential element of the President's Promise Zones initiative. This initiative will revitalize many of America's highest-poverty communities by creating jobs, attracting private investment, increasing economic activity, improving affordable housing, improving educational opportunities, and reducing violent crime. Promise Zones are key rungs on the Administration's Ladders of Opportunity initiative, which also includes raising the minimum wage, increasing access to high-quality preschool, redesigning America's high schools, and promoting fatherhood and marriage.

High-need communities will engage in an open, transparent, competitive process to apply for a Promise Zone designation. The Promise Zone designation process will ensure rural and Native American representation. If approved by Congress, Promise Zones will receive tax incentives to stimulate hiring and business investment, alongside with Federal partnership and technical assistance aimed at breaking down regulatory barriers and using Federal funds available to them at the local level more effectively. Promise Zones will be able to access investments that further the goals of job creation, additional private investment, increased economic activity, expanded educational opportunity, and reduction in violent crime. These could include Choice Neighborhoods at HUD, Promise Neighborhoods at the Department of Education, and Byrne Criminal Justice Innovation at DOJ. The Promise Zones initiative builds on the lessons learned from these existing place-based programs, for which the budget reflects increases in investment across agencies. Other Federal agencies that will be aligning their work with that of local Promise Zone partners include the Departments of Commerce, Health and Human Services, and Agriculture.

The Choice Neighborhoods initiative is a central element of the Administration's inter-agency, place-based strategy to support local communities in developing the tools they need to revitalize neighborhoods of concentrated poverty into neighborhoods of opportunity. The Department's administration of the first rounds of funding for Choice Neighborhoods 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 policymakers 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.

Helping Cities, Towns, and Regions To Plan Their Economic Future

The President is committed to making America a magnet for jobs. But 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. When America's metropolitan areas and rural communities are struggling to rebound from the economic crisis and compete for jobs on a global scale, 20th century practices are just not sufficient to attract businesses that have the flexibility to locate wherever they see the potential to hire committed and skilled workers. Increasingly, mayors and business and community leaders are instituting and demanding new economic development approaches that simultaneously recruit businesses based on industry clusters, unique resources available in the community, and implement community development strategies that ensure that employees have affordable housing choices, can get to work quickly and affordably, and are able to enjoy a high quality of life.

The Office of Economic Resilience (OER), located within HUD's Office of Community Planning and Development, will foster and incubate innovative program, practice and policy throughout the Department and with other agencies by partnering with communities to:

—strengthen and diversify their economies in ways that allow them to effectively compete on a global stage;

—retain and recruit workers that demand high quality places with robust local services and amenities;

—address distressed and isolated neighborhoods that minimize access to opportunity for residents; and

—effectively align and deploy Federal, State, and local funding for development and infrastructure.

OER will work in partnership with other Federal agencies like the Departments of Commerce, Transportation, Agriculture and Energy, Health and Human Services, the Environmental Protection Agency, Small Business Administration, and others to build the capacity of local, regional, and State governments, community organizations and business leaders to prepare and execute data-driven community economic development and infrastructure investment strategies. OER will fund $75 million in Integrated Planning and Investment Grants that will seed or enhance locally created, comprehensive blueprints that strategically direct public and private investments in development and infrastructure to projects that result in: attracting jobs and building diverse and resilient economies; significant municipal cost-savings; and stronger, more unified local leadership. These grants will create incentives for communities to develop and implement comprehensive housing and transportation plans, such as updates to building codes, land use, and zoning ordinances that result in more resilient economic development, improve housing supply response to demand, and increase affordable housing near public transit. Integrated Planning and Investment Grants will incorporate some of the same features of the previously funded Regional Plans for Sustainable Communities and the Community Challenge Grants offered by the Office of Sustainable Housing and Communities, but using lessons learned from those programs and feedback from local leaders and Congress, will prioritize supporting actionable economic development strategies, reducing redundancy in federally funded planning activities, setting and monitoring performance, and identifying how Federal formula funds can be used smartly and efficiently in support of economic resilience. As with the previous efforts, priority will be placed on directing grants to rural areas, cities, counties, metropolitan areas and States that demonstrate economic need and are committed to building the cross-sector, cross-disciplinary partnerships necessary to tackle the tough decisions that help make places economically competitive.

We know how important these planning tools are to regional economies—particularly those that rely on integrated supply chains that cross national borders and how essential they are to meeting the President's charge to double U.S. exports over the next 5 years. These investments will leverage other Administration proposals (e.g., Infrastructure Bank, Project Rebuild) to help overhaul America's deteriorating infrastructure and increase residential and commercial construction around transit.

Ensuring Inclusive Housing Nationwide

An inclusive 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, expanded training and language assistance, HUD will affirmatively further fair housing and the ideals of an open society.

The Fair Housing Initiatives Program (FHIP) is critical to building and sustaining inclusive communities. FHIP is the only grant program within the Federal Government whose primary purpose is to support private efforts to educate the public about fair housing rights and conduct private enforcement of the Fair Housing Act. In fiscal year 2014, HUD is requesting approximately $44 million in FHIP funds, representing the Department's strong commitment to fair housing, including $28 million to support the efforts of private fair housing organizations that conduct private enforcement of the Fair Housing Act. The Private Enforcement Initiative (PEI) grantees investigate and test housing providers alleged to have engaged in discrimination. The requested amount will continue funding to support fair housing enforcement by all statutorily eligible private fair housing organizations. In addition it will fund fair housing education at the local, regional, and national levels.

The Fair Housing Assistance Program (FHAP) is a critical component of HUD's effort to ensure the public's right to housing free from discrimination. FHAP multiplies HUD's enforcement capabilities, allowing the Department to protect fair housing rights in an efficient and effective manner. In fact, FHAP agencies investigate the majority of housing discrimination complaints filed in the United States. In fiscal year 2014, the budget provides $24.6 million in FHAP grants to 95 Government agencies, including 37 States, 60 localities, and the District of Columbia, to enforce laws that prohibit housing discrimination that have been reviewed and deemed substantially equivalent to Federal law.

Ensuring That an Economy Built From the Middle Class Out Includes Opportunities for Rural Americans

The Administration has placed a significant emphasis on ensuring that America's rural communities are competitive in the global economy—particularly given the reality that rural communities generally have less access to public transportation, along with higher poverty rates and inadequate housing. HUD serves families in small towns and rural communities through almost every major program it funds. The State-administered Community Development Block Grants (CDBGs) provide approximately $692 million to rural areas, supporting over 25,000 jobs both directly and indirectly, providing needed infrastructure, economic development, and affordable housing. HUD also funds over $300 million in rural areas for affordable housing and homeownership programs through its HOME Investment Partnership program, directly and indirectly supporting over 5,360 jobs.

As the single largest sources of funding for housing on Indian tribal lands today, programs like Indian Housing Block Grants, Indian Housing Loan Guarantees, and Indian Community Development Block Grants support development in remote areas where safe, 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. HUD recognizes the right of Indian self-determination and tribal self-governance by allowing the recipients the flexibility to design and implement appropriate, place-based housing programs according to local needs and customs. Taken together, in fiscal year 2014 HUD is requesting $739 million to fund programs that will support housing and development in American Indian, Alaska Native, and Native Hawaiian communities.

In addition, HUD and the Department of Agriculture (USDA) meet regularly through an interagency rental housing policy group to better align and coordinate affordable rental housing programs. Altogether, over 800,000 families in rural communities are directly assisted through the Housing Choice Voucher program, public housing, and Multifamily programs, with another 450,000 assisted through USDA. For homeowners, the FHA helps first-time homebuyers and other qualified families all over the country purchase their own homes. More than 1.5 million of the homes currently insured by the FHA are in rural areas, and approximately $545 million in current FHA loans are to rural healthcare facilities designated as "critical access hospitals." HUD recognizes the unique challenges in these rural areas, and continues to develop innovative, community-based programming to meet those needs.

HUD has also entered into a memorandum of understanding with the Department of Treasury's Community Development Financial Institutions Fund and the Department of Agriculture—Rural Development, to expand the capacity of organizations providing loans and investment capital in underserved rural regions. The initiative, which is being piloted in colonias along the United States-Mexico border, will improve the delivery of funding from Federal agencies and private sources supporting small business, affordable housing and community facilities.

GOAL 5: TRANSFORM THE WAY HUD DOES BUSINESS

A 21st century American economy that is a magnet for jobs and equips its residents with the skills they need for those jobs demands a government that's leaner, smarter, and more transparent. The current economic and housing crisis; the structural affordability challenges facing low-income homeowners and renters; and the new, multidimensional challenges facing our urban, suburban, and rural communities all require an agency in which the fundamentals matter and the basics function. As such, HUD remains committed to transforming the way it does business. This transformation is more crucial now than perhaps ever before—HUD remains at the forefront of the Federal response to the national mortgage crisis, economic recovery, Hurricane Sandy recovery, and the structural gap between household incomes and national housing prices—roles that require an agency that is nimble and market-savvy, with the capacity and expertise necessary to galvanize HUD's vast network of partners. HUD's 2014 budget reflects these critical roles, by investing in transformation, research, and development that will be implemented persistently over time.

Investing in Our Staff

HUD's greatest resource is its dedicated staff. When employees attain skills and are motivated to use those skills to help their organization reach goals, the capacity of the organization grows and employees in the organization grow as well. This is why HUD is providing its employees training and leadership development opportunities. In addition, many internal rules and regulations have become hurdles instead of being helpful. In response, HUD is in the process of simplifying and combining programs, streamlining regulations, and eliminating rules and constraints. The Department is also in the middle of a major reform of its information technology, human resources, procurement, and other internal support functions to give more authority and flexibility to managers and provide better service to HUD customers.

In fiscal year 2014, HUD is requesting $1.467 billion in salaries and expenses, including $127.7 million for HUD's Office of Inspector General (OIG). This funding request represents just a 0.6 percent increase from the fiscal year 2012 enacted level, and reflects HUD's commitment to lean and smart management. The HUD request includes several initiatives to streamline the HUD organization, including restructuring the accounts, increasing training for our staff, and providing significantly more detail on how HUD staff supports programs and strategic goals. HUD is making specific investments of more staff to manage major rental assistance programs, increasing our ability to enforce new fair housing rules, and providing more oversight to our community grant programs. The Department will continue to improve operations and create a dynamic organization capable of addressing some of our Nation's most difficult challenges. HUD remains at the forefront of the Federal response to the national mortgage crisis, the economic recovery, and the structural gap between household incomes and national housing prices. These roles require an agency that is nimble and market-savvy, with the capacity and expertise necessary to galvanize HUD's vast network of partners, including local officials, nonprofits, and faith-based organizations, among others.

Carrying Out Critical Program Demonstrations and Research

HUD's ongoing transformation is a multiyear effort that can only be achieved through the relentless focus of agency leadership, full transparency and accountability for real results, and sustained and flexible budget resources. The Transformation Initiative (TI) remains the primary source of funding for this transformation. Since TI was first enacted in 2010, it has bolstered the long-neglected areas of IT modernization, research and evaluation, and program demonstrations crucial for increasing the efficiency and effectiveness of the Department's programs. Further, TI has provided a mechanism for innovative, cross-cutting technical assistance that goes beyond program compliance to improve grantee capacity, performance and outcomes.

While the Department's transformation is a crucial long-term commitment, HUD continues to prioritize these efforts in a responsible manner that ensures HUD's constituent services don't suffer at the hands of internal transformation. This year's budget proposes a Department-wide HUD Transformation Initiative Fund to be funded by transfers from program accounts of up to 0.5 percent at the Secretary's discretion. The 2014 budget requests transfers of $80 million into its Transformation Initiative Fund for priorities such as:

Research and Evaluation.—To strategically increase efficiency and effectiveness of the Department's programs through examining policy questions and assessing program functioning and outcomes. TI-funded research complements the data infrastructure created through Research and Technology funding of national housing surveys. TI will support research priorities developed in a 5-year Research Roadmap by the Office of Policy Development and Research. The Roadmap reflects a year-long process of consulting with stakeholders about the research questions that are most relevant and crucial for housing and urban development policy and that HUD is best positioned to advance in a timely way. For example, one fiscal year 2014 priority project would refine HUD's utility models to enable the Department to more accurately account for energy usage in housing assistance programs in which utility costs are paid by tenants, and thereby help HUD to more effectively disburse funds for utilities that are actually consumed.

Program Demonstrations.—Demonstrations test new program approaches in a carefully structured and rigorously evaluated manner, and are essential mechanisms for evidence-based policy improvements. For example, the Rental Assistance Demonstration (RAD), approved in fiscal year 2012, supports the trial conversion of public housing and certain multifamily properties to long-term project-based contracts. TI will enable evaluation of outcomes. HUD is also proposing, within the Public Housing Capital Fund, a $15 million pilot of the evidence-based Jobs-Plus Demonstration to increase the earnings and employment of public housing residents. A process evaluation conducted in tandem through TI will document successful local adaptations and how this larger scale implementation affects outcomes.

Surveys and Data Infrastructure.—The Office of Policy Development and Research (PD&R) also provides fundamental support for informed decisions by the Department and national policy makers through data collection and research dissemination. PD&R has a key role in the improvement of national housing data infrastructure and meeting other key national information needs. In fiscal year 2014, HUD is requesting $50 million to fund the Nation's basic data infrastructure and share research knowledge on housing and community development. Complementing TI, this funding to support foundational housing market surveys continue the transformation of PD&R into the Nation's leading research organization addressing the wide array of America's housing and urban development challenges.

Delivering Strategic and Cross-Cutting Technical Assistance.—To ensure HUD's funds make the most impact in the communities where they are invested, HUD has shifted from making small investments in narrow, compliance-focused assistance to comprehensive, results-oriented capacity building that assists both grantees with deeply rooted management and financial challenges, as well as those driving innovation by being the first to implement new polices or programs. HUD delivers intensive, place-based technical assistance, working hand-in-hand with jurisdictions, housing authorities, and other stakeholders that are experiencing a range of capacity challenges. HUD also provides ongoing training and development on principles fundamental to operating housing and community development programs effectively, such as financial management and using data to drive decisionmaking. HUD's TA resources and training are increasingly offered online to make access easier for many stakeholders and to reduce the costs of providing TA.

Upgrading the Department's Information Technology Infrastructure

In fiscal year 2014, HUD is requesting $285 million to support and modernize its information technology infrastructure. This request includes $45 million for the development, modernization, and enhancement of key outdated systems; $116 million for the operations and maintenance of our current systems; and $124 million to complete the transition to our new IT Infrastructure system, HUDNET. In fiscal year 2014, HUD will focus our development efforts on transitioning the Department's IT infrastructure from the current antiquated environment to a modern, sustainable infrastructure, continued development of a modern financial management system that will improve HUD's ability to measure, track, and report on program costs and efficacy, and transitioning the current FHA systems to a modern platform. These changes will allow HUD to deliver services and manage its multi-billion dollar programs faster, more accurately and using better information for analysis. These funds are crucial to complement HUD's transformation efforts, providing resources for maintaining and improving Department-wide information technology systems.

CONCLUSION

Madam Chairman, this budget reflects the Administration's recognition of the critical role the housing sector must play to ensure that America becomes a magnet for jobs that strengthen the Nation's middle class, including providing ladders of economic opportunity for all Americans. 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 2014 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.

Senator MURRAY. Thank you very much, Mr. Secretary. And I will begin the questioning by talking about the status of FHA's Mutual Mortgage Insurance (MMI) Fund. Your budget states that $943 million may be needed to cover expected FHA losses in the single-family insurance fund in the fiscal year 2013. That follows on the most recent actuarial report showing that the capital reserve account would go negative. Can you talk about how the condition of the fund has changed in the past year, and how HUD arrived at its 2013 shortfall estimate?

Secretary DONOVAN. Absolutely.

MUTUAL MORTGAGE INSURANCE FUND

I am glad you raised the actuarial report and where we are. Before that report and since, we have taken aggressive actions to protect the fund—five different premium increases, including most recently at the beginning of this month, that will help protect the funds. That leads to, obviously, the significant receipts we expect in the budget this year, the $14.5 billion that I referred to.

What that shows you is that the new loans that we are making in the fund are the best quality that we have ever seen in FHA. And I do not believe, at this point, that we should be taking further steps to increase premiums. What we really should be focusing on are the loans that are causing the damage.

And those steps that we have already taken, as you can see, move us from a negative $16 billion number that was in actuarial report to the under negative $1 billion that we have in the President's budget.

The further steps that we need to be taking focus on the loans that are causing the deficit. If you just took out the reverse mortgage loans from the FHA fund, we would be in a positive $4 billion——

Senator MURRAY. Why are these such a problem?

Secretary DONOVAN. Frankly, the program needs reforms. And unfortunately, we do not have the authority to implement those reforms without full notice-and-comment rulemaking. That is a process that could take 18 months. And one of the things that we are asking Congress to do as quickly as possible is give us the ability to make these changes to the program through a mortgage letter much more quickly rather than having to go through this full notice-and-comment rulemaking.

REVERSE MORTGAGE LOANS

The other thing I would say in particular is that, because of the nature of the reverse mortgage loans, they are more highly sensitive to changes in house prices. So the recent economic crisis and housing crisis has had a more severe impact.

So we need to change the Home Equity Conversion Mortgage (HECM) program. We are asking for the authority to do that as quickly as possible, in addition to the changes we have already made.

The second thing I would say is we need to continue to increase the collections that we can make on older loans outside of the HECM program. We made a number of changes this year. We are going to continue to do that, streamlining short sales, improving loan sales. All of those can bring billions of dollars to the fund. But we also need help from Congress in increasing our enforcement authorities; for example, allowing us to remove servicing from lenders that are not doing a good enough job helping homeowners and helping protect the taxpayer.

Senator MURRAY. Okay, I appreciate that.

Let me ask you about sequestration. You testified before the full Appropriations Committee a few weeks ago about the impact on HUD's programs and the people who rely on those. Those cuts have now been implemented with some real consequences. I am hearing a lot about this at home. I mentioned that in my statement.

Can you talk about how public housing authorities are responding to these cuts, and what is their effect, especially since this has come so late in the fiscal year?

Secretary DONOVAN. Absolutely.

SEQUESTRATION'S IMPACT ON PUBLIC HOUSING AUTHORITIES

First of all, and you really talked about this in your statement, Senator, more than 100,000 families that we expect to lose vouchers, and we have already seen—you talked about the example of King County, where families who are on the waiting list who would have gotten a voucher are going to remain at risk of homelessness in terrible situations by not getting that voucher.

But there are even more extreme examples around the country. We have identified over 700 housing authorities where, even if they fully draw down their reserves, stop leasing new vouchers, that we do not think will be enough. That means that they will literally have to start cutting off families from the program——

Senator MURRAY. Who are currently in section——

Secretary DONOVAN. Who are currently served, or other extreme measures, reducing payment standards and other things that would have direct impacts on families that are already severely stressed. And so we are most concerned about those.

In the most extreme example, and I know this is particularly important to you and the ranking member, we have seen housing authorities start to turn back their entire programs. In other words, they say we can't administer vouchers anymore.

Senator MURRAY. Because they do not have the personnel to do it?

Secretary DONOVAN. Because they do not have the ability to do it. Thirteen housing authorities in the first 3 months of this year, that is a more than tripling of the rate that we saw last year. And last year was already high because of the cuts that we have seen in prior—we even have housing authorities turning back VASH vouchers. Can you imagine a housing authority saying I can't serve a veteran of this country to get them off the street?

Senator MURRAY. Not because they don't have a population that needs it, but because they do not have the personnel?

Secretary DONOVAN. Absolutely. Only because they do not have the funding.

Senator MURRAY. Right.

Secretary DONOVAN. Now, beyond that, thanks to the work that you did in the recent continuing resolution, we have gone from expecting about 100,000 people in our homeless programs to be back on the streets—that is down to 60,000. So it is better than the 100,000, but it is still 60,000 people that could be hurt that way.

I would also just point to one other example. As Senator Blunt knows, Joplin is still recovering from the devastating tornado we saw there. You all worked hard to make sure that funding was available through the Sandy supplemental. We have allocated over $100 million there to Joplin.

But we are going to see, just in the CDBG program, over $800 million of cuts. We believe that is 20,000 jobs in reconstructing, not to mention the more than 10,000 families and businesses who may never get rebuilt as a result of that.

Overall, what we are talking about, and you pointed to this, just at a time when we are really seeing the economy with the ability to take off, just in HUD's budget, we are talking about 50,000 jobs lost from sequestration, combining both the supplemental funding and the work that we are doing across our other programs.

So these are real impacts on the middle class, on our most vulnerable families, and they are happening today, and they will continue to grow for the rest of the year if we do not reverse sequestration.

Senator MURRAY. Yes, and what I am seeing is the impact on the broader community, too. As I see that constriction, people are once again stopping spending. They are stopping expanding. It has had a real impact, so I appreciate your perspective.

Senator Collins.

Senator COLLINS. Thank you, Madam Chairman.

Mr. Secretary, I was very interested in the exchange that you had with Senator Murray about reverse mortgages, because over the past couple of years, a retired mortgage banker in Maine has repeatedly contacted me to express her well-informed view that, in many cases, our seniors are getting into these reverse mortgages, and they are turning out to be a disaster for them. And she keeps asking why isn't HUD doing more, why isn't Congress doing more, to regulate this financial product?

So it is very interesting to learn today, and to learn based on the Home Equity Conversion Mortgage program, I believe you called it HECM?

Secretary DONOVAN. HECM.

Senator COLLINS. HECM. That HECMs are contributing to the financial instability of FHA's MMI Fund due to factors that included longer mortgage terms than were expected, declining home values, and an increase in the number of homes conveyed to HUD.

So I was very glad when Senator Murray asked you about the impact of those reverse mortgages on the MMI Fund, especially since we are concerned about that fund drawing on the Federal Treasury.

But I am also concerned about the impact on seniors of the wider spread use of reverse mortgages.

For example, the surviving spouse of a borrower with a HECM insured loan, if not a party to the mortgage him or herself, must pay off the loan upon the mortgager's spouse's death. And I am wondering if the spouse even realizes that when the reverse mortgage is granted.

So what is HUD doing to ensure that borrowers and their spouses understand that consequence and other potential problems with getting a reverse mortgage? We see these ads on television. It sounds like it is the best thing since sliced bread, and yet, I am hearing that there are a lot of problems. And the fact that you are seeing such a negative impact on the MMI Fund suggests this is an area that we really need to look at.

HOME EQUITY CONVERSION MORTGAGE REFORM

Secretary DONOVAN. Absolutely. And just to take this specific point, Senator, about the spouse, this is an issue that does need work and clarification. We are asking for legislative language that would clarify this in our budget. But we have also made sure that, in the counseling that we require, that this is a much more clear focus when seniors are making a decision about whether to take a reverse mortgage or not.

I agree with you that we need to do more outreach and make it more clear. We do believe that it is important that a spouse should be on the mortgage, be not just a part homeowner but actually signed on the mortgage for the financial integrity of the program. But we also have taken a number of steps to create more options; for example, to create more flexibility to allow a sale through the estate to ensure that there are ways to recover short of foreclosure in those situations.

So both the counseling and the flexibility on sale are things that we have done. But we need the clarification legally to make sure we all understand, because there is pending litigation on this, and that has created a lack of clarity as well.

More broadly, I would just say, quickly, for the reverse mortgage program, we have taken a number of steps to create safer products. We introduced a safer version a few years ago. We have enhanced the financial tools in addition to counseling that we provide. And we are seeing significant improvement in loans that were originated after these changes were put in place in 2011. Using an apples-to-apples comparison, default rates have come down in half. So we are seeing improvements in the safety of the loans.

MORATORIUM ON FULL DRAW PROGRAM

But we are very concerned about what we call the full draw program. We have put a moratorium on that program to stop it. And we will only reinstitute it if we can get the legislative authority we need to make the changes quickly. Otherwise, it will take us, as I said, through full notice-and-comment rulemaking, probably 18 months or so to be able to institute those changes.

And unfortunately, if we do not have them sooner, we are going to have to take more drastic measures that would really harm the seniors that should have a reverse mortgage, where it can be a productive tool, because by the end of the fiscal year, we have to have the program back to making money. We have to have it with what we call negative credit subsidy, so have it be a profitable program for the Federal Government.

And the only way that we can do that without this legislative change is to impose significant changes on principal limit factors and other things that we think do more harm than good in some ways.

Senator COLLINS. Thank you for that response. That is something I am very interested in working with you and the chairman on.

I do recognize that a reverse mortgage can be very helpful to some of our seniors, but it seems to me it is fraught with risks for others. And the fact that your fund is being hit hard suggests that it is also fraught with risk for the Federal Government. And of course, those two facts are connected.

So I do think that we need to take a look at that.

Let me just touch on one other issue. The budget proposes to increase the loan guarantee commitment authority for FHA's General and Special Risk Insurance programs from $25 billion to $30 billion. And as you are well aware, Chairman Murray and I tried very hard to get this anomaly included in the continuing resolution. Unfortunately, we were unable to include provisions that could prove problematic to final passage, and this was one of them, although it should not have been, in my view.

This important program provides mortgage insurance for the construction of multifamily housing, hospitals, and healthcare facilities. Based on commitments recorded through January of this year, the total demand for mortgage insurance during this fiscal year is expected to exceed the commitment limitation available.

If funding is depleted, delays in the approvals of mortgage insurance could jeopardize construction projects that add jobs to our economy.

So my question for you, Mr. Secretary, is when do you anticipate that the program will reach its current limitation of commitment authority during this fiscal year, since we were unable to get it increased through the continuing resolution?

GENERAL AND SPECIAL RISK INSURANCE COMMITMENT AUTHORITY

Secretary DONOVAN. Based on our latest projections, we expect to run out of commitment authority and have to shut down the program in mid-August. So that would be 6 weeks before the end of the fiscal year.

Let me just be clear. There are three reasons why we should do this, and we want to push hard to get this. We have done this in past years. We want to get this done during the rest of the year.

First, and you made this point, that $5 billion in commitment authority is 22,000 jobs. Second, we are also using that commitment authority to refinance existing loans that are already in the program to record low interest rates. That actually saves taxpayers money by making those loans safer going forward. Third, the new loans, that $5 billion, will actually make the taxpayers about $200 million, because those new loans we are making at the higher premiums that are charging today make money. And so, in lots of different ways, not doing this would be a real mistake.

Senator COLLINS. I completely agree with you, and it should have been done as part of the continuing resolution. We tried mightily to get it in there as an anomaly.

Secretary DONOVAN. I know you did, and I appreciate it. I think we know where the resistance has been. And I think if we work together—I certainly have had conversations already on the House side about this. I hope we can get there. We have been able to in the past, and really, for the private sector, in terms of these jobs and being able to move forward, it would be a shame at the time our housing market is recovering to reverse that progress.

Senator COLLINS. Absolutely. Those three arguments are very solid. Thank you.

Senator MURRAY. Senator Blunt.

Senator BLUNT. I thank the chairman.

Secretary Donovan, on the last page of the booklet I have here on fiscal year 2014, if I am looking at these figures right, it looks like to me that, in the billions, the number you had available in fiscal year 2012, was $44.341 billion. The number you asked for 2014 is 10 percent higher than that.

What number did you actually wind up with available to you in 2013?

Is that $44.615 billion what you had available or is that pre-sequestration?

Secretary DONOVAN. You are looking at 2013?

Senator BLUNT. I am.

Secretary DONOVAN. That is pre-sequestration.

Senator BLUNT. So how much did you——

SEQUESTRATION BUDGET NUMBERS

Secretary DONOVAN. So post-sequestration would be $42.4 billion. And again, that is on a gross basis. Our receipts from FHA and Ginnie Mae total $11.2 billion in 2013. So, on a net basis, it would be $31.2 billion.

And I do not believe the table you have includes those receipts, if I am correct.

Senator BLUNT. I think it has $11.204——

Secretary DONOVAN. Yes, I am sorry.

Senator BLUNT. A lot higher than 2012 and 2011, more than twice as high as 2012 and 2011.

Secretary DONOVAN. That is correct. And that is both due to the better quality of the loans that we are making, as well as the increase in premiums.

Senator BLUNT. And does that affect overall programs, or just the programs where those receipts come in?

Do you actually get to spend that money like it was other money available to you?

Secretary DONOVAN. Ultimately, that is up to the Congress to determine in the allocations for the budget, how much of those receipts would stay——

Senator BLUNT. What happened here? What happened here? Did you have $11 billion more to spend on other things as supposed to the year before, where you had $5.8 billion?

Secretary DONOVAN. Again, I do not have the discretion to spend that money. But it is a net benefit to the taxpayer. It does offset the cost of our programs. So Congress determines how to use those receipts.

Senator BLUNT. Okay, back to my earlier point then. Your total spending in fiscal year 2013 was higher even with sequestration than fiscal year 2012, because of those receipts?

Secretary DONOVAN. So with sequestration, it is about a $1.9 billion reduction.

Senator BLUNT. Reduction.

Secretary DONOVAN. In gross spending. So that is the $44.3 billion going down to the $42.4 billion.

Senator BLUNT. Why did you decide to submit the numbers as if sequestration or the budget caps would not be utilized again this year? Was that the direction you got from the Office of Management and Budget (OMB)? Or did you decide that on your own?

Secretary DONOVAN. We wanted to provide both pieces of information.

Here is the reason, fundamentally. The President believes, I believe, that, as I said very clearly, that sequestration is damaging; it is not the right way to manage these programs; and that we should, before the fiscal year is out, we hope to reach a comprehensive agreement with Congress that would reverse sequestration and put in place a balanced deficit reduction plan. And, therefore, we think it is critical to look at not just where we are today with sequestration, but also to provide the information that shows where we would be without that sequestration, as well.

Senator BLUNT. But do you have a list of proposals to show where you would be with sequestration? I noticed the President yesterday, according to Reuters, had to submit a document that reduced his own budget he submitted the day before by $91 billion, but with no particular prioritization, just taking it, I guess, out of the budget like sequestration.

You do know that is the law, of course?

Secretary DONOVAN. Obviously, it is the law, and we are living with the consequences.

In fact, if the——

Senator BLUNT. We also live with the consequences of not acting like it is the law. September 28, OMB sent out a document to you and everybody else that I put in the Congressional Record a couple months ago that said, spend your money beginning October 1 as if the law will not be followed. I think it actually said, "as if Congress will change the law," which is, of course, a nicer way to say that.

But it would seem to me that we would want to set the priorities you want with the money you are likely to get, as opposed to the priorities you want with lines that will, in all likelihood, I believe, now will be cut. But that is just my view as opposed to yours.

Answer a question for me about veterans' housing, homeless veterans. You said you had 60,000 people unserved instead of 100,000? Was that the comment you made?

Secretary DONOVAN. That is in our homeless programs more broadly, not just——

Senator BLUNT. Not veterans. Homeless programs more broadly.

What did we do in the continuing resolution that allowed you to at least close 40,000 of that anticipated gap from 100,000 to 60,000?

SHORTFALLS UNDER SEQUESTRATION

Secretary DONOVAN. There was funding added to our homeless assistance grants that allowed us to renew more of the existing units that are there. We still are going to have to, if sequestration continues, and the continuing resolution, we are going to have to eliminate existing programs that house the homeless if sequestration is not reversed. And that would be about the 60,000 number that I cited.

Senator BLUNT. So the continuing resolution update was better for this program than if we had just continue to go with past priority-setting efforts.

Secretary DONOVAN. Senator, I would just add, to go to your question earlier, to be clear, we do believe sequestration should be reversed. We believe that is the right course. And the President is not going to give up on that.

But I would also say that if sequestration continues, it will make the budget picture worse next year and increase needs in many of our programs. Just to give you one example, if sequestration continues, we will go into next year with a $1.2 billion shortfall in our project-based section 8 program. Those are contracts that we signed with private owners who manage housing that says here is the rent that they are entitled to. And so, for us to live up to those contracts, we are in a position, if sequestration is not reversed, where, in addition to the funding that we have here, is an additional $1.2 billion that would be needed to live up to those contracts.

Senator BLUNT. And would those contracts be a priority?

Secretary DONOVAN. Absolutely. And as I said in my testimony——

Senator BLUNT. Absolutely. So why wouldn't you want to be dealing with this subcommittee to try to be sure we were helping you meet your priorities before you meet anything else?

Secretary DONOVAN. That is exactly why this was a priority for us in the budget as I laid it out. Eighty-four percent of our budget that goes to renewals is the top priority for us, and we have made sure in the budget for next year that every single family that is currently served could continue to be served.

Senator BLUNT. Well, I am sure you are not the only agency that has had to approach this, or decided to approach this, this way. But my sense would be that, at some point, we are either going to decide we are going to change the law, or it is actually the law, and we all need to figure out how to deal with that as we are helping set priorities as opposed to vote for an appropriations bill that is going to be cut in areas that we wouldn't want it cut on a line-by-line basis, and other things that were new and aspirational might have had a broader debate if you knew they were truly areas that were going to be impacted by these funding programs.

Chairman, thank you for the time.

Senator MURRAY. Thank you. And I would just remind all of us that we are in a position now where we are trying to work between the White House, the House, and the Senate on what those levels are going to be. Meanwhile, we have to move our appropriations bills forward, and we are all trying to manage through that.

Mr. Secretary, in recent years, examples of housing authorities that misused Federal funds or failed to comply with important safety regulations have really highlighted the importance of oversight. As you work now to improve HUD's oversight, it is important to make sure we are not just adding new requirements or just asking for more information, but we are instead asking for the right information and using it effectively.

What steps are you taking to improve oversight and streamline reporting requirements and update regulations?

OVERSIGHT OF TROUBLED PUBLIC HOUSING AUTHORITIES

Secretary DONOVAN. Well, first, I would point to the critical section 8 reform legislation that we have proposed. As I said, we are looking at $0.5 billion in savings just next year, $2.7 billion over 5 years. That is enormously important. This does go to Senator Blunt's point as well.

There are important steps that we can take while serving the same number of families to lower costs in the programs.

We have also taken substantial steps to make sure that the minority of public housing authorities, the small number that are violating program rules, that are in serious difficulties, and are not living up to the standards that we have set, those troubled housing authorities, that we are focusing on them and either enforcing against them or working with them to correct those problems.

And I do think we are making progress there. If you go back to the beginning of administration, we had about 175 troubled housing authorities around the country. We are now down to 52. And I think that we will continue to make progress. We would be happy to provide more information on how we are doing that through our FARs effort.

We have over 100 teams around the country that are working with these housing authorities, both to enforce and to improve them.

We made enough progress that we have started working on the near-troubled agencies. We have seen about a 10-percent reduction in the number of those, and we are going to take additional steps. We are looking forward to seeing the results of those assessments this year to see if we made further progress. And we are actually going to go further upstream to those that are, for some reason, in the risk-ranking that we are doing, appear to be at risk of troubles.

So those are all important.

The other thing I would just make sure we understand here, HUD needs to live up to its responsibilities to oversee these housing authorities. But these are local entities created under State law with boards of directors, executives that have authorities for oversight themselves. And we are going to be aggressive, and we have been aggressive, in going after individuals who are not living up to their standards and also that may be violating our rules.

We are debarring and taking other steps against individuals who are not living up to their responsibilities. We need to make sure that local responsibility is met.

Just the last thing I would say is, even where these folks are doing a great job—you mentioned Steve Norman in King County. Senator Collins mentioned the improvements that we have made in the Maine State Housing Authority. They are also not magicians. And when you are operating at under 70 percent of administrative fees, we have to recognize that the risk here, no matter what we do to make the programs more efficient and effective, is that oversight will fail, that we will get more units, because there are not capital funds to fix them up, that are not in decent condition.

And so while we do everything that we can to create more flexibility, the fungibility between operating and capital fund is a good example in our budget, to increase oversight, there is a limit as to what we can do. And even some of these efforts we would like to undertake, we will have to put aside or delay, given the funding levels that we have.

Senator MURRAY. An excellent point. And on the local governance issue, that really is important. And I would like to work with you and the inspector general on ways to improve the ability of housing authorities and other governing boards to identify some of these problems.

I want to quickly talk about some of the new initiatives. As I have traveled around my home State, I have been excited to see some of the partnerships housing providers have created to address the housing and service needs of people seeking assistance.

Tacoma, King County housing authorities are doing really great and exciting work around education. Longview and Walla Walla in my State are doing some really great work with our veterans' groups. Seattle's Yesler Terrace project supported by Choice Neighborhoods involves partnerships with schools, community colleges, local employers. And that project is going to redevelop housing and the whole surrounding neighborhood, while also increasing opportunities for families living in them.

Your budget proposes to make a significant investment in Choice Neighborhoods, and I wanted to ask you, how does Choice encourage the kind of partnerships and leveraging happening in Seattle?

CHOICE NEIGHBORHOODS

Secretary DONOVAN. Yes, I very much appreciate you raising this because the President strongly believes that we can reach our balanced deficit reduction while still investing more in the programs that are going to create jobs and growth, and help people be ready for those jobs through these Ladders to Opportunity.

And I would just quibble a little bit with your use of the term "new initiatives." I do want to be very clear that everything in this budget, whether it is in Choice Neighborhoods, the Neighborhood Stabilization Investment, Jobs-Plus, some of the other things that you mentioned, those are all things that are tested at this point and that we have done.

We are proposing an effort to coordinate these better through Promise Zones, but it is not a new program, in the sense that it is simply scaling up existing initiatives or things that we have proposed before.

One of the things that I think is so impressive about Choice Neighborhoods—and you have seen it directly, just about anybody who goes to see the transformation of these neighborhoods—is that they have enormous leveraging of what work is being done, whether it is at the Department of Education, that is why we want to link up with their Promise Neighborhoods effort. But it also brings so much private capital.

So just take the nine grantees that we have done so far in implementation grants for Choice Neighborhoods. They have raised over $2 billion in capital for investment and job creation. That is over eight times a multiple of the money that we have put in on the Federal side.

So some people might say, well, we ought to put this money into the regular capital fund account. But I think we can get more bang for the buck if we put it into Choice Neighborhoods and leverage all of this other private capital that can go to work creating jobs.

The other thing that it recognizes is, what is the cost of the child that grows up in that neighborhood and ends up in a homeless shelter, that ends up not being able to get a job because they are not getting a decent education?

Senator MURRAY. Never finishes, yes.

Secretary DONOVAN. We estimate that the 20 percent of kids growing up in poverty in this country costs us $0.5 trillion a year in lost productivity and wages.

And that is a cost that we have to avoid. And that is why the President focused on this Promise Zones coordination effort, to make sure that not only we are giving these kids a chance, we are living up to the American promise, but that we are also avoiding those enormous costs of failure.

Where are our future workers going to come from if we are leaving all these kids behind? And that is a cost we can't afford to bear.

Senator MURRAY. Right. Well, I really appreciate that. And as I have seen in my State, the partnerships that are created through these initiatives really do make a difference.

Secretary DONOVAN. Seattle Housing Authority Yesler is a terrific example.

Senator MURRAY. Great example, yes.

Senator Collins.

Senator COLLINS. Thank you, Madam Chairman. Madam Chairman, I am going to submit the remainder of my questions for the record, because I think if I get into a long exchange, we will get into the vote that is coming up very shortly, which probably makes the Secretary very happy. But I do want to make one——

Secretary DONOVAN. This is one of the few hearings I love spending time in.

Senator COLLINS. He is tactful as well.

I do want to say that the budget presentation—and this isn't just HUD's, it is across the board. Because of the way it was done this year, comparing to fiscal year 2012 rather than to the enacted sequestered amount, is extremely confusing.

I had to have my staff write out for me, and HUD's is even more confusing because you have offsetting receipts, which a lot of agencies and departments don't. So I had to have them write out for me fiscal 2012 enacted, then what is the amount with receipts; fiscal 2013, the sequester year, what is the amount with receipts; fiscal 2014, what is the request and what is the amount with receipts.

And I think to prevent confusion as we begin marking up and putting together a bill, we need a clearer chart from you. I mean, you can glean it from some of this, but it isn't easy.

And I suspect that that is because you were instructed by OMB to pretend the sequestration is going to go away and do your comparisons to fiscal year 2012.

Is that an accurate assumption on my part, or can we get a more straightforward chart?

Secretary DONOVAN. I will hand you this in about 30 seconds when we finish. So, yes, we do have that.

And look, obviously, we want to provide whatever information you need to make decisions.

I do think it is a fundamental point here that the President believes, we all believe, that sequestration is not the right policy, and that we ought to reverse it, that we can reverse it. And particularly building into our budget, for instance, this $1.2 billion hole for project-based section 8, if we believe we can get there and not have that was not just a "we were instructed" but it was a policy choice that we made that we fully believe in.

Senator MURRAY. Can I just say that this is all going to have to be resolved? The House is looking at a different number than the Senate, and, at some point, we are going to have to have an agreement.

But we are moving forward as if we are enacting a budget that has—well, we will hear from our chairman of the Appropriations Committee what exactly our subcommittee allocations are. But they have to move forward now. We can't wait for several months for the budget to be decided between the House and the Senate.

So this will all come to a head at some point, but I think we are trying to manage between the guesses at this point.

Senator COLLINS. And I agree with that, and I also am no fan of sequestration. We do need to reduce our spending. But to do these mindless automatic meat axe cuts does not reflect priority setting, which is what we are supposed to do.

But that doesn't mean that we shouldn't be looking at budget constraints and reduce spending.

I am just trying to figure out what the real numbers are here and you need to make that——

Senator MURRAY. So is the Appropriations Committee chairman.

Senator COLLINS. You need to make that easier for us, not harder, just by your views on sequestration, which I may well largely share, and despite the hope that this goes away and that we come up with a more rational priority-based budget.

But it truly was extremely difficult to follow the figures.

RENTAL ASSISTANCE DEMONSTRATION

Secretary DONOVAN. I apologize. And I also just would say, to thank you, Senator and the chairman, for the remarkable way that we have worked together on some of these.

Let me just give you one example. You talked about, are there smart things that we can do to save money, consolidate programs? Last year, you gave us the authority to begin our RAD, Rental Assistance Demonstration. We have already gotten either commitments or letters of interest to convert to the section 8 platform from two-thirds of all the units across the country in two of the legacy programs—we call them orphan programs, about 14,000 apartments across the country—that we should be looking to move to a platform.

We have 13 different rental assistance programs. With what we are proposing in our budget, I think we could easily complete that conversion and end up with fewer programs with no additional appropriations, no other work.

So I do think that there are lots of things that we can continue to do, as you say, not with the meat axe, not with these—as Senator Graham said the other day, he asked all of his witnesses, so you are saying this is stupid, sequestration? We sort of looked at each other, is this a trick question? But yes, it is.

There are smart ways we can do this, and we have been able to do that in the past. We did it last year, and I am sure that we can continue going forward in making those smart decisions while not hurting the veterans, the families, the seniors, the people with disabilities that so often depend on our programs.

Senator COLLINS. Thank you.

ADDITIONAL COMMITTEE QUESTIONS

Senator MURRAY. Thank you. And I do have additional questions I will submit for the record and remind my colleagues that we will leave the hearing record open for 1 week for additional questions.

And, Mr. Secretary, thank you so much again for your incredible work on this. We look forward to working with you as we work through the numbers.

Secretary DONOVAN. Thanks for your partnership.

[The following questions were not asked at the hearing, but were submitted to the Department subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR BARBARA A. MIKULSKI

SUPER STORM SANDY

Question. Super-Storm Sandy's wrath had a measurable impact on residents of Maryland, and especially on the residents of Garrett County. Maryland suffered a double whammy. Our coastal areas along the beloved Chesapeake Bay and the Atlantic Ocean were hit by the hurricane. In Garrett County, called the Switzerland of Maryland, we were hit by a blizzard.

Homes were destroyed or damaged, nearly all of the county lost power for a week. More than 100 people had to stay in shelters during the storm. Fallen trees, debris, and power lines blocked almost all of the county roadways.

Fire companies were not able to respond to several structure fires because of the blocked roadways. The county lost their primary and backup 911 call center for 5 days. And the local hospital operated on Code Yellow Divert (critical patient intake only) for 4 days during the storm.

30,000 people live in Garrett County, almost 10 percent below the poverty line, and almost 15 percent are seniors. Residents have experienced significant costs after electrical masts were ripped from homes during the storm. Electrical companies repairing the lines will not hook up homes to power until residents repair electrical masts at their own expense.

My first legislation as Chairman of the Appropriations Committee was taking over the disaster spending bill to get it passed into law. And the Sandy Task Force has been hard at work. The TV cameras have left, but the compelling human need has not.

Secretary Donovan, I'm grateful for the work that you and the Task Force have been doing, and I appreciated it when you assured me at the last hearing on Super-Storm Sandy that Community Development Block Grant Program Disaster Recovery (CDBG-DR) funds could help "fill gaps" for areas that didn't get Individual Assistance (IA) from the Federal Emergency Management Agency (FEMA).

I'm concerned that IA qualification may act as a barrier to Garrett County getting the help it needs for its poor and elderly residents.

Will you work with me and my staff to ensure that the county gets the help that it needs in the coming rounds of CDBG-DR funding releases?

Answer. Madam Chairwoman, please be assured that the Department is evaluating the full range of recovery needs associated with Hurricane Sandy and will be making additional allocations of CDBG-DR funding in response to these needs. I would appreciate the opportunity to better understand the needs in Garrett County as a result of Hurricane Sandy and would be happy to have our CDBG disaster recovery staff meet with Garrett County officials and work with you and your staff to ensure that we fully understand the scope of the county's unaddressed recovery needs.

QUESTIONS SUBMITTED BY SENATOR FRANK R. LAUTENBERG

COMMUNITY DEVELOPMENT BLOCK GRANT DISASTER RECOVERY ACTION PLAN

Question. On March 28, I signed a letter urging the Department of Housing and Urban Development (HUD) to quickly review New Jersey's proposed Community Development Block Grant (CDBG) Disaster Recovery Action Plan. As you know, the $1.8 billion in Federal disaster recovery aid that is the subject of the plan cannot be distributed until HUD approves the plan. When will HUD complete its review?

Answer. The Department completed its review of the State of New Jersey CDBG disaster recovery action plan in late April and approval of the plan was announced on April 29, 2013. Both State officials and HUD have signed the initial grant agreement and funds are currently available to the State.

CDBG DISASTER RECOVERY FUNDING

Question. On March 5, HUD issued a notice regarding the criteria for the initial allocation of $5.4 billion in Community Development Block Grant (CDBG) disaster recovery funding. This notice prohibited the use of these funds to cover costs incurred by privately-owned, but publicly-regulated electric utilities in response to Superstorm Sandy. In previous disasters, these entities did qualify. This change in precedent will likely result in increased electricity bills for New Jersey residents and could hurt the ability to strengthen critical power infrastructure. Will HUD include privately-owned, but publicly-regulated electric utilities as qualified CDBG recipients in the next allocation to protect New Jersey ratepayers from rate increases?

Answer. In its December 7, 2012, request to Congress for assistance in response to Hurricane Sandy, the administration indicated its intention to limit Community Development Block Grant disaster recovery (CDBG-DR) assistance to for-profit entities solely to small businesses. This position is reflected in the Federal Register Notice that HUD issued on March 5, 2013, governing the use of CDBG-DR funds. The Federal Register Notice defines "small business" by applying Small Business Administration definitions as found in 13 CFR 121. The Notice also specifically prohibits the provision of CDBG-DR assistance to privately owned utilities for any purpose. The Department will consider the full range of recovery needs when establishing requirements applicable to future CDBG-DR allocations in response to Hurricane Sandy but will remain consistent with overall administration policy in the use of these funds.

CDBG DISASTER RECOVERY ACTION PLAN

Question. New Jersey's proposed Community Development Block Grant Disaster Recovery Action Plan provides $825 million to assist homeowners, while providing only $254 million to rebuild rental housing. This allocation has raised concerns because 43 percent of New Jersey households registering for Federal Emergency Management Agency (FEMA) assistance as a result of Sandy are renters, and many are low-income families. Will you commit to carefully reviewing New Jersey's plan to make sure that all families in New Jersey—both renters and homeowners—get the help they need?

Answer. The New Jersey CDBG-DR action plan approved by HUD on April 29, 2013, directs approximately 33 percent of housing program funds to multifamily/rental properties uses. This represented an increase of 5 percent from the State's initial proposed allocation to multifamily/rental purposes. The Department has conducted its own analysis of the owner/renter split in the FEMA data and believes the State's allocation of 33 percent for multifamily/rental purposes is consistent with the data.

Question. Superstorm Sandy damaged more than 800 public housing units in my State, displacing 100 families. New Jersey's proposed Community Development Block Grant Disaster Recovery Action Plan sets aside only $5 million to support public housing unit repairs. I am concerned that—because of the pre-existing backlog of public housing capital repair needs—this amount may be inadequate. What share of the Sandy-damaged public housing units in New Jersey will it be possible to restore to a state of good repair with this and other anticipated Federal funding?

Answer. As part of the Department's review of New Jersey's CDBG-DR action plan, HUD discussed with State officials the proposed public housing allocation of $5 million. The Department is pleased to report that as part of the HUD-approved action plan, the State increased the public housing allocation from $5 million to $20 million. Further, the State is committed to reassessing public housing recovery needs as additional information becomes available and additional allocations are made by HUD.

PUBLIC HOUSING DRUG ELIMINATION PROGRAM

Question. Prior to 2002, public housing authorities were able to fund safety, security, and drug- and gang-prevention activities through the Public Housing Drug Elimination Program, which I created. That program was eliminated by the Bush administration. In the absence of dedicated funding, how is your agency working with public housing to make their facilities safe and drug-free?

Answer. Annually a portion of the Emergency/Disaster set aside within the Capital Fund is made available for funding safety and security grants. This funding provides assistance to public housing agencies for emergency capital needs including safety and security measures necessary to address crime and drug-related activity.

Emergency safety and security grant funds may be used to install, repair, or replace capital needs items including, but not limited to the following:

—security systems/cameras;
—fencing;
—lighting systems;
—emergency alarm systems;
—window bars;
—deadbolt locks; and
—doors.

Outside of the Safety and Security set-aside competition, physical improvements to the property, such as fencing, security cameras, or additional lighting, are eligible Capital Fund modernization activities under current laws and regulations. Public housing agencies (PHAs) can also use their Operating Fund subsidy for "anticrime and anti-drug activities, including the costs of providing adequate security for public housing residents, including above-baseline police service agreements." (U.S. Housing Act.)

PUBLIC HOUSING AUTHORITIES—EMERGENCY CAPITAL NEEDS

Question. In fiscal year 2013, Congress allocated up to $20 million for grants to public housing authorities to address emergency capital needs, including "safety and security measures necessary to address crime and drug-related activity." Of the $20 million emergency capital needs allocation, what share has HUD set aside for safety and security measures?

Answer. The Department plans to set aside $3 million initially for safety and security measures. At the end of the fiscal year, if funds remain that were not awarded for emergencies/disasters, the Department will make additional safety and security awards for applications that were received and determined to be eligible, which could not be funded due to the limited funds.

QUESTIONS SUBMITTED BY SENATOR DANIEL COATS

BETTER STEWARDS OF TAXPAYER DOLLARS

Question. We are operating during a time where the game has changed. Instead of coming here every year in the Appropriations Committee and asking "how much more are we going to spend this year?" we are faced with a fiscal crisis which requires us to ask "how can we take better care of the taxpayer dollars that are being sent here?" We must all ask how we can better manage and oversee Federal departments. How we can separate the essential projects from the projects we'd like to do but can't afford it right now from the projects where we ask "why are we doing this in the first place?" Please describe how you are working to save money in the Department of Housing and Urban Development (HUD). Furthermore, please explain how you are working to prioritize funding requests for essential programs instead of programs that don't seem to work very well.

Answer. The Department strongly shares your belief of the importance of credible stewardship of taxpayer funds, particularly in the difficult fiscal environment for discretionary programs. The Department is proposing several significant cost savings proposals identified below as well as policy changes that will further strengthen our successful program efforts.

As you would agree, HUD's mission—to create strong, sustainable, inclusive communities and quality, affordable homes for all—is crucial to our Nation's well-being, particularly at a time when nearly 8.5 million households were found to have worst case housing needs in 2011, an increase of about 1.4 million in only 2 years, largely reflecting the lack of affordable housing. These very low-income renters do not receive government housing assistance and either paid more than half their monthly incomes in rent, lived in substandard housing, or both. Housing needs cut across all regions of the country and included all racial and ethnic groups, regardless of whether they lived in cities, suburbs, or rural areas, and were found across various household types, including families with children, senior citizens, and persons with disabilities. Without HUD assistance, a fiscal year 2011 HUD study projected that 68 percent of the tenants we assist would be added to the worst case housing needs rolls.

To help address the affordable housing need, HUD dedicated a majority of its fiscal year 2014 funding request to serve families with the greatest financial needs and support those most vulnerable. More than three-quarters of HUD's fiscal year 2014 budget request will provide rental assistance to almost 5.4 million residents of HUD-subsidized housing, including public housing and HUD grants to homeless assistance programs. Also, more than three-quarters of HUD-assistance households are extremely low-income—i.e., below 30 percent of area median income, and over 65 percent of HUD-assisted households are elderly and disabled.

Key contributing programs that support affordable housing development, preservation of existing units and past investments, or rental assistance to low-income families and associated cost savings efforts:

—*Tenant-Based Rental Assistance (Fiscal Year 2014 Request—$19.9 Billion)*.—The section 8 Housing Choice Voucher program is the Federal Government's major program for assisting very low-income families, the elderly, and persons with disabilities to afford decent, safe, and sanitary housing in the private market. The program currently serves almost 2.2 million families. At the same time, the fiscal year 2014 request supports approximately 700,000 landlords and property owners who participate in the program by providing a fair market rent so that they can meet mortgage payments, local tax obligations, utility expenses, and maintain properties in good physical condition.

The overall requested amount reflects $235 million in anticipated savings in 2014 from proposed changes to income targeting that will increase the eligibility of more working poor families, particularly in rural areas ($155 million), the increase in tenant income contribution from raising the medical expense exclusion threshold from 3 to 10 percent ($30 million), and a change in how utility allowances are determined in the cases of families who rent units that are larger than the bedroom size of the voucher for which they qualify under the public housing agency (PHA) subsidy standards ($50 million).

—*Project-Based Rental Assistance (Fiscal Year 2014 Request—$10.3 Billion)*—The Project-Based Rental Assistance program provides rental assistance for eligible tenants residing in specific multifamily rental developments. This program serves approximately 1.2 million low-income and very low-income households that are primarily seniors, families with children, and persons with disabilities. The overall request reflects $240 million in anticipated savings from policy changes that apply residual receipts accounts to offset assistance payments for new and old regulation contracts ($105 million); require the appraiser for certain owner-commissioned rent comparability studies to provide additional support to justify the conclusions of the study ($35 million); limit rent levels for certain contracts renewed for projects with current rents that exceed market rents ($8 million); reduce the time period over which an owner may claim vacancy payments from 60 days to 30 days ($7 million); and increase tenant income contribution from raising the medical expense exclusion threshold from 3 to 10 percent ($85 million).

—*Public Housing (Fiscal Year 2014 Request—$6.6 Billion)*.—The Public Housing program provides affordable, publically owned housing units to approximately 1.1 million families who cannot afford or will not be served by housing in the private market, 60 percent of whom are fixed-income seniors or families in which the head-of-household is a disabled person. The Public Housing Capital Fund serves as the primary source of funding for public housing rehabilitation and development, and the Public Housing Operating Fund provides the operating subsidy payments to public housing authorities for the operation, management, and maintenance of the rental housing.

—*Moving To Work*—The fiscal year 2014 budget proposes to scale up the Moving To Work demonstration in which high-performing State and local public housing agencies are given various flexibilities in operating their public housing programs. In exchange for this flexibility, public housing agencies help design and test innovative policies that use Federal dollars more efficiently, help residents become self-sufficient, streamline and consolidate program delivery, and reduce long-term costs.

—*Rental Assistance Demonstration*.—The Rental Assistance Demonstration, enacted in 2012, targets HUD-assisted properties that are at risk of being lost from the Nation's affordable housing stock inventory. It allows the conversion of public housing and other HUD-assisted properties to long-term, project-based section 8 rental assistance as a tool for public housing agencies to leverage private debt and equity to address their properties' immediate and long-term capital needs, estimated at approximately $26 billion (2010). The fiscal year 2014 budget requests $10 million for targeted expansion of the demonstration to public housing properties in high-poverty neighborhoods, including designated Promise Zones where the administration is also supporting comprehensive revitalization efforts.

—*Homeless Assistance Grants (Fiscal Year 2014 Request—$2.4 Billion)*.—The administration is committed—through Opening Doors: Federal Strategic Plan To Prevent and End Homelessness—to ending chronic homelessness by 2015; homelessness among veterans by 2015; and homelessness for families, youth, and children by 2020, and setting a path to ending all types of homelessness. This commitment has already resulted in a decrease in the number of chronically homeless persons by 19.3 percent since 2007. Chronic homeless are the most expensive portion of the homeless population. Homelessness among veterans has declined by 7.2 percent between January 2011 and January 2012. In addition, as of April 2012, almost 40,000 veterans have been housed with a HUD–Veterans Affairs Supportive Housing (VASH) voucher, funded through the Tenant-Based Rental Assistance program. The fiscal year 2014 budget request maintains the approximately 325,000 HUD-funded beds that assist the homeless nationwide, expands rapid re-housing and permanent supportive housing, and targets—through HUD–VASH vouchers—chronic homeless veterans.

—*Housing Opportunities for Persons With AIDS (Fiscal Year 2014 Request—$332 Million)*.—This program provides housing assistance and supportive services for very low-income persons living with Human Immunodeficiency Virus (HIV) infection who are at risk of homelessness. The budget—through a forthcoming legislative proposal—modernizes the program to improve targeting of resources by basing the funding formula on Centers for Disease Control and Prevention (CDC) data on persons living with HIV/AIDS rather than cumulative AIDS cases, and by incorporating local housing costs and poverty rates into the formula.

The remainder of HUD's fiscal year 2014 budget is dedicated to capital grants, which are used by communities to develop and repair affordable housing or support economic development activities and infrastructure, and other diverse initiatives, including service coordination, Fair Housing and Equal Opportunity, Healthy Homes and Lead Hazard Reduction, to name a few. In fact, the budget reflects some of the tough choices that needed to be made in the capital grant programs, for example. The budget provides $950 million for the HOME Investment Partnerships Program (HOME), 5 percent below the 2012 enacted level, in addition to proposed amendments that would improve the targeting focus and effectiveness of the overall program at the constrained resource level. The budget provides $2.798 billion for the Community Development Block Grant formula allocation, which is a $150 million reduction for formula allocation purposes in comparison to fiscal year 2012. Doing more with less, however, the budget proposes several reforms to improve targeting and the effectiveness of this program, including changes to the allocation process.

Also, HUD's Transformation Initiative (TI) Fund remains the primary source of funding for HUD's multi-year effort to fundamentally transform the agency through the use of evidence and improved partnership with the Department's grantees and other partners. The TI Fund enables HUD to initiate projects that re-engineer fundamental business processes, streamline programs and operations, enhance accountability and respond to cross-cutting and urgent challenges more nimbly and effectively. Transformation Initiative priorities are: (1) research and evaluations to build a foundation of current data on program effectiveness and emerging policy issues; (2) program demonstrations to test new program approaches in a carefully structured and rigorously evaluated manner; and (3) technical assistance to diffuse evidence-based innovation and support State and local partners to improve their capacity to use public resources effectively. In addition, HUD will focus its information technology development efforts on modernizing the Department infrastructure, including the continual development of a modern financial management system that will improve HUD's ability to measure, track, and report on program costs and efficacy. These information technology investments will allow the Department to deliver services and manage its multi-billion dollar programs faster, more accurately, and using better information for analysis.

Finally, the Department is taking steps to protect the Federal Housing Administration (FHA) fund, reduce risk, and modernize the FHA. The Administration projects that the FHA will insure $199.3 billion in mortgage loans in 2014, supporting new home purchases and refinanced mortgages that significantly reduce borrower payments. FHA's loss mitigation program minimizes the risk of financially struggling homeowners going into foreclosure. Recent increases in FHA premium levels will boast FHA's capital reserves and increase Federal revenues. In addition, legislative proposals would provide additional authority to ensure that FHA borrowers are receiving the level of delinquency assistance needed from servicers, and stronger and more flexible enforcement authorities so that FHA can better identify non-compliance and poor performance and take action to avoid losses.

HOUSING ASSISTANCE PROGRAMS

Question. In 2012, the Government Accountability Office (GAO) found the Federal Government is operating 160 housing assistance programs and tax expenditures within 20 Departments and agencies costing about $170 billion.[1] Despite these programs, homeownership rates fell to a 17-year low in the third quarter of 2012. The effectiveness of the programs is also often inconclusive. What is HUD doing to address this puzzle of 160 overlapping and duplicative programs?

Answer. The Department has numerous examples of the effectiveness of its housing assistance programs. In the absence of these programs, for example, many of the Nation's most vulnerable families would be at imminent risk of homelessness, there would be far fewer affordable housing units, and many of the current first-time and minority homeowners might not own homes with affordable, sustainable, fair, and transparent mortgages. Below are key examples of the broad reach and success of HUD's major housing programs. In an accompanying question, we have also provided reforms and savings proposals included in the President's budget for various HUD programs. The Department recognizes that each spending and tax expenditure program is enacted into law by Congress and reflects commitments to broader housing by goals and involves specific mission and individual program designs. Finally, the Department does not target a specific individual homeownership rate but is committed to providing a strengthened mortgage and housing environment that supports and expands appropriate homeownership including targeting to low-income and other populations who with proper assistance can responsibly participate in the opportunities afforded through homeownership.

HUD Programs Support and Sustain Homeownership.—Federal Housing Administration (FHA) financing was used for 27 percent of home purchase loans in 2011, including an estimated 41 percent of first-time homeowners. Fully 60 percent of all African American and Hispanic homebuyers using mortgages rely upon FHA financing and over 30 percent of all FHA-insured homebuyers are minorities. According to the latest Home Mortgage Disclosure Act data, half of all African Americans who purchased a home in 2011, and 49 percent of Hispanics, did so with FHA financing.

[1] http://www.gao.gov/assets/590/588818.pdf.

Between April 2009 and February 2013, more than 6.4 million foreclosure prevention actions were taken—including nearly 1.7 million FHA loss mitigation and early delinquency interventions and 1.5 million homeowner assistance actions through the Making Home Affordable program, including more than 1.1 million permanent modifications through the Home Affordable Modification Program (HAMP)—saving these households an estimated $18.5 billion in monthly mortgage payments.

HUD Programs Produce Desperately Needed Affordable Housing Units.—HUD's HOME Investment Partnership Program completed 1,095,946 affordable units in the past 20 years, of which 460,692 were for new homebuyers, 212,100 were for owner-occupied rehabilitation and 423,154 were new and rehabilitated rental units. Thirty-seven percent of those assisted by HOME with affordable rental housing between 2008 and 2012 were extremely low-income families (families with incomes below 30 percent of area median income).

HUD Programs House Vulnerable Families.—The Housing Choice Voucher (HCV) program helps 2.2 million low-income families afford decent housing in neighborhoods of their choice. This program serves the most economically vulnerable families in the country, including families with disabilities, elderly families, formerly homeless veterans, and families with children. Of the families currently receiving HCV assistance, 78 percent are extremely low-income, with incomes at or below 30 percent of the area median income, 40 percent have a disabled head of household, and 18 percent are elderly families.

Many families assisted by the program formerly experienced worst-case housing needs and without the benefit of this program would be at immediate risk of homelessness. The most recent Office of Policy Development and Research (PD&R) report estimated there were nearly 8.5 million families with worst case housing needs in 2011—an increase of about 1.4 million in only 2 years. A family is defined as having a "worst-case" housing need if it pays more than half of its income toward rent or lives in severely inadequate physical conditions, or both (Worst Case Housing Needs 2011: A Report to Congress—Summary (2013). Department of Housing and Urban Development, Office of Policy Development and Research).

HUD GRANT CRITERIA

Question. HUD provided a Community Block Development Grant (CDBG) in the amount of $505,000 to Sergeant's Pet Care Products, Inc. which specializes in pet shampoo and toothpaste.[2] This company was expected to bring in $140 million in revenue in 2012.[3]

Secretary Donovan, how is HUD working to ensure that its grant awards are focused on worthwhile projects? Do you believe that we should provide awards of over half a million dollars to private companies with revenue over $100 million?

Answer. Loans to for-profit entities are statutorily eligible activities under the Community Development Block Grant (CDBG) program. The State of Nebraska uses a portion of its annual State CDBG funding and CDBG program income to support its Economic Development Revolving Loan Fund to provide assistance to businesses and to create jobs. In this particular instance, Nebraska awarded funds to Sarpy County which, in turn, provided a loan to Sergeant's Pet Care Products to purchase machinery and equipment as part of a $7.5 million project. The project will help create 58 new full-time jobs, 40 of which will be targeted to low- and moderate-income persons, and will help retain 72 existing positions. According to State officials, the project is on track with all funds anticipated to be drawn and expended by the end of June 2013 and projected jobs to be created by the end of January 2014. The project meets all CDBG eligible requirements, national objective requirements and public benefit requirements.

OVERALL USE OF HUD FUNDS

Question. According to HUD's Office of the Inspector General (OIG), in fiscal year 2012, HUD could have put over $3.2 billion to better use and paid over $1.3 billion in questionable costs.[4] This represents over $4.5 billion in public funds that could have been better spent providing housing aid to people in need or not spent at all. Secretary Donovan, how do you explain this egregious use of funds that your own Inspector General identified?

Answer. The majority of funds that you are highlighting as funds that could be put to better use are constituted by four major items described below. The Department does not believe that the classification of funds that can be "better used" is

[2] http://www.governor.nebraska.gov/news/2012/03/19__sarpy__co.html.
[3] http://www.morganlewis.com/pubs/Law360__PerrigoWin__13sept12.pdf.
[4] http://www.hudoig.gov/pdf/sar/sar-68.pdf (page II).

useful or transparent in informing the public regarding the details of these significant financing issues. The Department would like to stress the many areas of agreement with the Office of the Inspector General (OIG) and the positive actions taken to meet specific circumstances including enactment of statutory authority by Congress for large portions of the total amounts—proposals that the Department actually initiated. In like manner, the Department emphasizes the need to examine the specifics of each case of financial action classified under the heading, "questionable costs." For instance, the fact that a guaranteed loan program that was enacted by Congress for 1 year only did not have full subscription to the program does not seem to be well defined as funds that could be put to better use.

Four Items That Constitute the Vast Majority of Funds OIG Labeled as Having Potential "Better Use"

Item 1 involves the FHA Preforeclosure Sale Program, which accounted for approximately $800 million of the $3.2 billion identified by the OIG. The OIG conclusions derive from an examination of 61 claims involved in the $25 billion national foreclosure settlement that was a great accomplishment involving the Department, the OIG and 49 State Attorneys General. This landmark settlement is resulting in recovery of funds for thousands of families impacted by improper foreclosure proceedings as well as having provided additional resources for the Federal Housing Administration (FHA) Single Family Mortgage Insurance program. In addition, in a larger context the Department is working diligently on both an operational, regulatory and statutory basis to further reduce risks involved in the FHA mortgage programs and thereby further strengthen the financial position of the FHA funds. While the FHA has agreed to implement the OIG's recommendations, we do not agree with the characterization that the funds in question could have been put to better use.

Items 2 and 3 reflect an OIG review done covering fiscal year 2012 that recommended that $1 billion in Public Housing Operating Subsidy be offset by limiting reserves held by public housing authorities to 6 months. The audit also recommended an additional $890 million could be used as an offset from PHAs' Housing Choice Voucher (HCV) program net restricted assets (NRA), " . . . if it is determined these funds are in excess." The Department worked closely with the Congress on this issue and the enacted fiscal year 2012 Appropriations bill did provide for a $750 million Operating Subsidy offset (initiated by the Department) and an additional $650 million reduction in HCV NRA as proposed in the audit, but at levels that were considered by Congress and the Department to be more appropriate.

Item 4 reflects a recommendation by the OIG to return funds in the amount of $471.8 million to the U.S. Treasury from the Emergency Homeowners' Loan Program since all of the funds were not obligated. This loan program was authorized at $1 billion for 1 year only and the Department did follow the direction discussed by the OIG to return several hundred million dollars to the U.S. Treasury recognizing that the subscription to the program was less than originally projected by the Congress when they enacted the legislation.

Two Items That Constitute the Vast Majority of OIG Identified "Questionable Costs"

Under the category of questionable costs the OIG report includes $322.2 million under the FHA Preforeclosure Sale Program discussed above and an additional $807.3 million, of which the majority share is associated with FHA-insured loans made by Countrywide Home Loans, Incorporated (later sold to Bank of America). As described on page 27 of the OIG semiannual report covering through September 30, 2012, Bank of America has paid FHA nearly $471 million to settle the Countrywide portion of the consent judgment and has also agreed to a deferred settlement payment to FHA of $850 million.

FHA'S PREFORECLOSURE SALES PROGRAM

Question. HUD's OIG also reviewed the Federal Housing Administration's (FHA's) Preforeclosure Sales Program in fiscal year 2012. Of 80 claims statistically sampled, 61 did not meet the criteria for participation in the program. As a result, it is estimated that HUD paid $1.6 billion in claims.[5] How do you intend to strengthen program controls and obtain reimbursement from those lenders that were not previously pardoned from repayment in the national mortgage settlement?

Answer. The Department provided an auditee response to the Office of Inspector General (OIG) audit of the Federal Housing Administration's (FHA's) Preforeclosure Sale Program (PFS); Audit Report No. 2012–KC–0004. The auditee response dated September 17, 2012, stipulated that the Office of Single Family Housing agrees that

[5] http://www.hudoig.gov/pdf/sar/sar-68.pdf (page III).

its PFS policies should align with market execution. To achieve this objective, FHA agreed: (1) to introduce a streamline PFS approval based on loan characteristics and borrower credit profile; and (2) specify income documentation requirements for the deficit income test that must be met for borrowers that do not meet the streamline requirements. OIG reviewed the corrective action stipulated above and a mortgagee letter that will achieve the two objectives referenced is scheduled to be issued in the 4th quarter of fiscal year 2013, pending OMB approval.

[A copy of HUD's complete auditee response follows:]

HUD MEMORANDUM—AUDITEE RESPONSE TO OIG'S AUDIT OF FHA'S PREFORECLOSURE SALE PROGRAM

SEPTEMBER 17, 2012.

For: RONALD J. HOSKING,
Regional Inspector General for Audit, 7AGA

From: CHARLES S. COULTER,
Deputy Assistant Secretary, Single Family Housing, HUD

Subject: Auditee Response, FHA Preforeclosure Sale Program, Audit No.: 2012–KC–000X

The Office of Inspector General (OIG) reviewed the Federal Housing Administration's (FHA) Preforeclosure Sale Program. OIG performed this nationwide audit because of noted significant deficiencies in borrower qualifications during their audit of CitiMortgage's compliance with FHA's Preforeclosure Sale (PFS) claims (2011–KC–1005, September 30, 2011). OIG's audit objective was to determine whether the U.S. Department of Housing and Urban Development (HUD) paid claims for only those preforeclosure transactions that met the criteria for participation in the program.

The Office of Single Family Housing acknowledges that existing PFS policy and lender execution against that policy is inconsistent. To improve alignment and ensure that the long-term interest of the FHA Insurance Fund are met, FHA is working toward: (1) introducing a streamline PFS approval policy based on loan characteristics and borrower credit profile; and (2) specifying income documentation requirements for the deficit income test that must be met for borrowers that do not meet the streamline requirements.

The Office of Single Family Housing would also note that the 80 loans sampled by the OIG had an average credit score of 596 and an average delinquency of 8.7 months. Given this profile, it is likely that most of the 80 loans would have been conveyed to FHA as real estate owned (REO) if the PFS transactions had not been approved. Since the recovery rate of all PFS transactions is 53 percent and the recovery rate for single family REO sales in 36 percent, the claims paid by FHA on the PFS transactions were lower than they otherwise would have been and may have resulted in a net benefit to the FHA Insurance Fund of as much as $170 million.

Regardless of the economic impact to the FHA Insurance Fund, the Office of Single Family Housing recognizes the need for strong, clear PFS policies and lender oversight. The Office of Single Family Housing will work closely with the OIG to ensure that these objectives are met and that the issues identified in the report are rectified.

SUBCOMMITTEE RECESS

Senator MURRAY. This hearing is recessed until next Thursday, April 18 at 10 a.m., at which time we will hold a hearing on the Federal Aviation Administration's budget request.

[Whereupon, at 11:06 a.m., Thursday, April 11, the subcommittee was recessed, to reconvene at 10 a.m., Thursday, April 18.]