

Opening Statement of the Honorable Steven C. Preston
Nominee, Secretary of Housing and Urban Development
U.S. Senate Committee on Banking, Housing, and Urban Affairs

May 22, 2008

As Prepared for Delivery

Chairman Dodd, Ranking Member Shelby, members of the Committee, it is an honor to be here to discuss my nomination to be the next Secretary of Housing and Urban Development.

I appreciate the speed with which you have scheduled this hearing. I am also grateful for the time so many of you have spent with me over the past few weeks to share your views, concerns, and recommendations. Let me say that if I am confirmed, I intend to keep the lines of communication and consultation open, and to work as a partner with Congress to address the nation's housing and urban issues.

There are few issues more pressing today than the challenges we face in the housing and mortgage markets. If confirmed, I will work collaboratively with you to address those issues while continuing to advance the dream of homeownership and ensure that Americans have decent, safe, and affordable housing.

Before I go any further, I would like to introduce my family. I am joined by my wife, Molly, and three of my children: Anna, Madeleine, and Gibson

MANAGEMENT EXPERIENCE

We all understand how critical leadership is in times of great need—especially when bold measures are required—and how important management depth is in leading large organizations effectively.

As many of you know, I spent 24 years in the private sector in financial and operational leadership positions in organizations as large as 75,000 employees.

Most recently, my SBA team and I have spent nearly two years reforming and revitalizing a federal agency that faced numerous challenges in its ability to serve America's entrepreneurs and disaster victims.

SBA makes low-interest loans to disaster victims—mostly homeowners. I came to SBA 11 months after Hurricane Katrina. At that point, the agency still had over 100,000 disaster victims in its loan process who were desperate to get their lives back on-track. We also had a great urgency.

Immediately after coming to the agency, my team dug deep into our operations and identified issues leading to high error rates, steep backlogs in critical processes, and decision-making bottlenecks. While we learned a lot from looking at data, we learned

more by interviewing our employees on the front line, and even more by listening to the stories of disaster victims who were dealing with SBA.

Connecting individual stories with operational problems helped us address the right issues, and connecting the real-life challenges of Katrina victims with the piles of uncompleted work helped re-energize our organization to work with urgency and resolve.

We quickly launched a completely reengineered operation to give disaster victims more personal, hands-on assistance through case managers, while also streamlining our processes, and addressing production and technology problems behind the scenes. As a result of the changes we made – and in only four months -- we reduced backlogs by more than 90 percent and cut the age of the backlog from 2½ months to 10 days in our area of greatest difficulty. Today, SBA has disbursed more than \$6 billion in disaster recovery loans in the Gulf which is helping more than 100,000 home and business owners rebuild their lives.

Since then, we have made similar changes in programs throughout the SBA – what we have called our Reform Agenda – to improve service, streamline operations and increase transparency. These changes are helping small businesses get capital, training, and access to federal contracts.

We have also focused heavily on providing our employees with better training and tools, and making SBA a better place to work. When I arrived, SBA's employee morale was rated 30th out of 30 among major federal agencies. One year later, our survey showed strong improvements in virtually every category with our most dramatic gains in areas relating to leadership and workforce effectiveness.

Qualifications

I would also like to link my background more specifically to HUD. As I consider the issues facing the country today, the head of the Housing and Urban Development Department will need to be able to address:

- a turbulent housing market and its impact on the economy;
- related issues with financial institutions and capital markets;
- the issues that individual homeowners face;

as well as

- issues facing specific communities with housing developments and affordable housing
- the ongoing challenge of homelessness;
- agency management and performance challenges.

I have spent most of my career in the private sector in financial and operational leadership positions with large companies. My background has given me the tools and

hands-on experience to handle the broad spectrum of complex issues that the next HUD Secretary will face.

After completing my MBA at the University of Chicago 25 years ago, I worked for a decade in investment banking, advising major corporations on strategy, working extensively with U.S. and international capital markets, and structuring complex financial transactions.

I then moved to Treasurer, Chief Financial Officer, and operational roles at two multi-billion dollar companies, working extensively on improving service quality, managing the work force effectively, as well as regulatory issues and complex financial, strategic, and technology issues.

As SBA Administrator, I oversee loan guarantee programs similar to certain programs run by HUD. Much like HUD, SBA lending programs reach people who are underserved by traditional markets. More than 28 percent of SBA guaranteed loan dollars go to minority owned small businesses, compared to 5 percent of conventional small business loan dollars – meaning that SBA guaranteed loan dollars are more than five times as likely to go to minority-owned businesses. In addition, more than 16 percent of SBA guaranteed loan dollars go to women -owned businesses, compared to only 4 percent of conventional loan dollars.

An important SBA goal is to expand business ownership, much as one of HUD's goals is to sustain homeownership. SBA is a critical source of economic support to communities recovering from natural disasters, just as HUD provides disaster housing assistance and other support in times of need.

SBA also helps small businesses affected by the decline in housing prices. Home equity has traditionally been an important source of funding or collateral for small businesses seeking to form or expand. SBA has aggressively expanded its outreach to banks around the country to assist them in adopting SBA guaranteed lending programs to support small businesses who may no longer qualify for traditional loans.

UNDERSERVED

On a more personal note, I am here because the issues HUD addresses are important to me. I left the private sector and came to Washington because I wanted to use my experience to make a different kind of contribution.

I believe deeply that individuals are better off and communities more stable when more people own their own business, or home, or can create a nest egg. To me, this is the root of sustainable progress against poverty and the heart of genuine compassion.

I have also come to realize that while all the talk earlier of business and metrics and operational reform may sound dry, it's actually another central part of true compassion.

I learned in working with Katrina victims that people generally come to government because it's the last resort – they are stressed, upset, in need. The most compassionate response at that moment is service that is efficient, professional and courteous. The recipients of government services – especially those in need – deserve better than what they all too often get. That is part of my vision for government service.

At SBA, we have focused heavily on initiatives aimed at underserved urban and rural markets. We have designed more relevant products, expanded outreach, and focused agency goals to support small businesses in underserved communities. Energizing entrepreneurship helps these communities by bringing lasting, sustainable economic activity that creates jobs, and generates investment in the communities across our country that need it most.

Earlier this year, SBA launched its Emerging 200 initiative to identify high potential, inner-city businesses and provide them with the training and resources to reach their full potential. Eleven cities are participating in the program.

In addition, the agency has established a pilot with Operation HOPE, Inc. in Harlem to provide training, counseling and business education. We hope to expand it this year. SBA is also partnering with the Initiative for a Competitive Inner City (ICIC) and Bank of America Capital Access Funds on Inner City Capital Connections to stimulate capital flow to underserved inner city markets. I'm proud that SBA received the 2008 National Inner City Economic Award for its dedication to promoting free, competitive enterprise, particularly in inner cities.

Mr. Chairman, Ranking Member Shelby, and other members of the committee, I believe my record shows a deep commitment to the needs of hard-working Americans and institutions such as HUD and SBA that can help them improve their lives. I believe I have a proven history of successful change management at large, complex organizations. And, I have a track record of working with urban communities to improve their economic conditions and their quality of life.

I also believe my record indicates a commitment to transparency, accountability, and bipartisan cooperation. If confirmed, I will look forward to working with the Committee to continue efforts to resolve the nation's housing crisis, support people in their time of need, and ensure we have a Department of Housing and Urban Development that serves the country effectively at this crucial time.

Thank you and I look forward to your questions.

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