

**WRITTEN STATEMENT OF
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U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**



**HEARING ON
HUD'S FISCAL YEAR 2009 BUDGET
BEFORE THE
SENATE BANKING, HOUSING AND URBAN AFFAIRS
COMMITTEE
UNITED STATES SENATE**

MARCH 12, 2008

Introduction

Thank you, Chairman Dodd, Ranking Member Shelby, and the members of the committee for this opportunity to appear today.

Mr. Chairman, the budget for the Department of Housing and Urban Development (HUD) represents an investment in the American people by the American people. This investment is measured in more than dollars. It is measured in the lives we touch, whether in creating and protecting sustainable homeownership, preserving affordable rental housing, helping the homeless, or revitalizing our cities.

The budget reflects America's compassion and commitment. The President's budget will ensure housing assistance for those in need, preserve and promote homeownership by addressing subprime mortgages, strengthen communities by sustaining homeownership gains, make further progress towards ending chronic homelessness, and continue the trend of improving HUD's management and performance.

Almost every American is touched by our programs, directly or indirectly. And there are few things more personal or cherished as the house or apartment where we live, watch our children grow up, and where we grow old. Our budget is about promoting new homeownership and making the American dream possible. The budget is about protecting families already in homes. It is about expanding affordable rental housing. It extends funding and services to those in need, including the disabled, veterans, the homeless, people with HIV/AIDS, and elderly and disabled people affected by hurricanes Katrina and Rita. Further, it continues to support and encourage community growth and revitalization.

I believe we have a good budget. It is fiscally sound, supports our mission, and fits in well with the overall vision for the President's entire fiscal year request. My department would receive an historic investment, \$38.5 billion. This is an increase of more than \$3 billion, or nine percent, over last year's proposal. The budget is almost \$1 billion more than our current budget authority.

Let me break this down in more detail.

Ensuring Housing Assistance

I am pleased that the budget strongly ensures housing assistance for those in need. As in the past, Mr. Chairman, the largest part of our budget is for affordable rental housing. Combined, this budget seeks more than \$29 billion for our rental assistance programs which we expect will help more than 4.8 million households. We are mindful of the continued need for more affordable rental housing, especially as some low-and-middle-income workers find themselves priced out of the real estate market in many cities. We need to maintain the units currently available and this budget will help us do that.

The budget increases primary housing programs by providing \$7 billion to renew all project-based rental contracts and \$400 million for an advance appropriation to bridge

renewal funding into 2010. This will help provide housing assistance for nearly 1.3 million low-income tenants.

We also increase housing choice vouchers, reaching over two million low-income families, while removing the cap on the number of housing units that Public Housing Authorities may assist.

The budget also supports public housing operations with a request for \$4.3 billion, the highest proposed funding level in history. This will cover the necessary operating expenses for 1.2 million public housing units.

The proposed budget also seeks \$300 million for persons living with HIV/AIDS. This funding would provide housing and care for 70,500 people.

The proposed budget also contains \$3 billion in Community Development Block Grant (CDBG) funding for states and local governments. We have once again asked Congress to revise the outdated funding formula for this program. With appropriate revisions, we can distribute resources more efficiently and fairly, making this funding more effective and helpful.

Mr. Chairman, let me also add some comments about the recovery effort from Hurricanes Katrina, Rita, and Wilma. The disaster was unprecedented. Recovery will take many years. We have been deeply involved in these recovery efforts.

You should know that HUD has funds available of nearly \$20 billion throughout the Gulf Coast region to assist in recovery. States have spent approximately \$8.5 billion to date. So far, more than 110,000 homeowners in Louisiana and Mississippi have received financial assistance from HUD. We know that there is more to do – much more. We have learned much and worked through some enormous difficulties. But progress is noticeable.

The American people should be proud of their investment and their compassion. If anyone wants to see America's heart, they should go to the Gulf Coast, where so many people have given generously of their time, their love, their patience, and their courage.

The Gulf Coast is coming back, and one important reason is a fundamentally sound approach to recovery.

When Hurricanes Katrina, Rita, and Wilma devastated the Gulf Coast, many of our most vulnerable citizens lost the only homes they had known. We recognized last year that some of those families affected by the storm needed additional time to recover, which is why the Administration transferred the responsibility for housing these families from Federal Emergency Management Agency (FEMA) to HUD under the Disaster Housing Assistance Program (DHAP) and extended government housing assistance another 18 months to 30,000 families.

The President is also requesting \$39 million to ensure that the elderly and disabled families displaced by the 2005 Gulf Coast Hurricanes remain protected at the conclusion of DHAP. These Disaster Displacement Assistance vouchers will provide permanent affordable housing to eligible elderly and disabled families, while the remaining storm victims who are not on fixed incomes continue on the path to self-sufficiency.

The Department will administer these vouchers as part of the Section 8 Housing Choice Voucher Program. We will make rental assistance payments on behalf of these families, whether they have relocated or returned home.

Preserving and Promoting Homeownership

Promoting homeownership remains one of the central goals of this Administration. We have to get the housing market back on track. We know that homeownership is good for families, the community, the nation, and the world. Homeownership equals empowerment, wealth creation, independence, and fulfillment of the American Dream. It gives the family a stake in the community. Homeownership is a source of pride. It is particularly important for America's minority communities, which historically have lower rates of homeownership.

Clearly, the housing crisis is a powerful challenge. After the unprecedented, historic gains in homeownership between the start of the decade and 2005, there has been a downward trend in homeownership. The troubling rates of foreclosure and other housing indices reveal more than a statistical drop or figurative decline. They tell us of families losing their homes, of people losing their investments, and of dreams stolen away.

The causes are many. But the subprime situation is often the reason. But not all subprime loans are bad. Subprime loans broadened the availability of credit and led to housing investment for those who previously had less than perfect credit. And the majority of subprime loans are still being paid on time. About 20 percent of subprime loans are problematic. This means that many families cannot afford their subprime loans. Some families are on the edge of a financial abyss. The rapid rate of foreclosure threatens to continue unless appropriate actions are taken.

This budget will help HUD in its efforts to address the housing crisis. It will give us the tools we need to continue our work. We must reverse the downward trend in housing indices and homeownership. We must help homeowners retain their homes. We must also look to the future because we must increase the number of families who own their own homes. And we must retain the sizable increase in minority homeownership. As you may recall, in 2002, the President challenged the nation to create 5.5 million new minority homeowners by the end of this decade. And we have made substantial progress: 3 million more minority families have become homeowners since 2002. We must build on that progress.

Of course, the President's stimulus package will help. I'm grateful Congress has given this package its support. By temporarily increasing FHA loan limits, we can back more

safe, sound mortgages in high-cost states and help homeowners trapped in exotic subprime loans to hold on to their houses.

We also need the President's request for \$65 million in this budget for housing counseling. Why? Well, we have learned that housing counseling makes a powerful difference in homeownership and foreclosure avoidance. You see, many of the failed loans were a surprise because the homeowner didn't read the fine print and didn't understand the contract. Housing counselors could have helped the homeowner gain a better perspective about affordability and balanced expectations. Families must buy homes they can afford. They must understand the contracts – have an especially clear idea of the features of financing and the ramifications of resets, and the terms and the timelines. Prospective homeowners must have a prudent mortgage, not a “suicide loan.” We must remove the mystery, confusion, and vagueness from the process. There must be full disclosure, understandable information, and a transparent process.

That's why we need housing counselors to be fully engaged in the process. Housing counselors are an important line of defense against foreclosure. They can enlighten homeowners and help prospective owners determine the affordability and appropriateness of a mortgage. They can explain the contract and answer questions.

The President has been a strong proponent of funding for housing counseling, and has worked with you to more than double the funding for housing counselors since the start of this Administration. Now, given the magnitude of the crisis we face, it is important to expand funding for housing counseling. The President's request in this area is paramount to prevent future foreclosures.

These funds, in addition to the President's request of \$180 million for the Neighborhood Reinvestment Corporation, provide great services to those in need. And we now know that spending in this area is a sound investment, saving the nation from expenses related to foreclosures, lost revenues, slowdowns in business spending and new housing construction, and declining home values.

The Administration is also taking steps to ensure it isn't as hard for homeowners to read the fine print when they do sign on the dotted line. That's why we are committed to reform of the Real Estate Settlement Procedures Act (RESPA). We hope to publish a new RESPA rule in the coming days. Our goal is to bring much needed transparency to the home-buying process.

Strengthening Communities by Sustaining Homeownership Gains

The President has also requested a substantial increase of \$263 million for our HOME program. This would bring the funding level up to nearly \$2 billion for the nation's largest block grant program specifically designed to produce affordable housing. This request includes \$50 million for the American Dream Downpayment Initiative, which provides flexible housing assistance, and increases affordable housing and minority homeownership. Since the inception of the HOME program 16 years ago, almost 812,000 units of affordable housing have been created.

We also need to support other efforts to maintain current homeownership and stimulate new purchases. In August 2007, the President and I introduced an effort, *FHASecure*, to help more Americans facing foreclosure refinance into a safer, more secure Federal Housing Administration (FHA) loan. We did this using current regulatory and I am pleased to report that the program is helping many families avoid foreclosure. There has been a noticeable increase in the number of closings with FHA. Two months ago, there were 2,500 closings a month with FHA. Now, there are 4,500 closings a week! By year's end, we expect FHA will be able to help more than 300,000 families refinance into affordable FHA-insured mortgages.

Mr. Chairman, you should also know that FHA has mailed letters to hundreds of thousands of at-risk homeowners to urge them to refinance with safer, more affordable FHA-backed mortgages. These letters are being sent to homeowners who already have or soon will confront the first reset of their adjustable rate mortgage, and are currently living in locations subject to FHA loan limits. We will be sending these letters out to about 850,000 at-risk homeowners.

But we could do so much more with legislation to modernize the FHA. Congress needs to quickly complete work on a bill that will immediately give us authority to expand FHA's ability to serve the very type of borrowers who were lured into high-cost, high-risk loans. We need to make the minimum down payment more flexible, create a fairer insurance premium structure, and permanently increase FHA's loan limits. This will allow more families to use FHA, perhaps hundreds of thousands of families. We need FHA modernization as soon as possible. Every day of delay places qualifying homeowners at unnecessary risk. Our estimates indicate that FHA modernization could help as many as 250,000 more families by the end of 2008.

We asked for this bill two years ago to help us avoid the mortgage crisis. But now we need it to help address the crisis.

I am also pleased that the mortgage industry has stepped forward to help. Treasury Secretary Paulson and I have worked closely with the mortgage industry to address the housing crisis in another way: enlist proactive industry cooperation. The industry worked with the Administration to develop a program called the *HOPE NOW Alliance* to help homeowners at risk of foreclosure. The *Alliance* has implemented a plan that could help up to 1.2 million homeowners avoid foreclosure over the next two years by providing systematic relief that includes modify or refinancing existing loans, moving borrowers into *FHASecure* loans, and implementing a five-year freeze on interest rate resets for subprime loans. The industry has already assisted 370,000 homeowners. HOPE NOW has contacted more than half a million borrowers in the second half of 2007.

There are other actions that will help. So, you'll see the budget has a sharp increase for our Self-Help Homeownership Opportunity Program (SHOP) that works with

organizations like Habitat for Humanity and others to build housing through sweat equity.

Fair housing practices are an important aspect of homeownership. This year marks the 40th anniversary of passage of the *Fair Housing Act*. Our budget provides \$51 million to protect the right of all Americans to be free from housing discrimination based on race, religion, gender, sexual orientation, family status, or disability. This is an increase of \$1 million over the current appropriated level.

I also hope you will notice our new Fair Lending Division. This office will examine questionable mortgage practices and investment complaints from homebuyers. It is an important addition – a new way to directly address unfair practices.

This new division has already made an impact. Recently, HUD awarded grants totaling approximately \$1 million for the development of strategies to address lending discrimination. These grants were awarded to state agencies in Ohio, Massachusetts, Colorado, and Pennsylvania, states with some of the highest rates of foreclosure in the nation. The agencies in these four states are developing “best practices” for intake procedures, investigation techniques, and education and outreach activities for their mortgage lending enforcement programs. These “best practices” will be made available to all state and local agencies in the Fair Housing Assistance Program (FHAP).

Ending Chronic Homelessness

And the homeless must not be forgotten. We are making strides in reducing chronic homelessness with our “continuum of care” approach. We are working to provide assistance across the entire spectrum of homelessness. This continuum of care is vital because homelessness is a complex, difficult, multi-dimensional problem, both for those who are homeless and for those who are working to meet the needs of the homeless.

Our national effort to end homelessness has been steadfast, with strong commitment and investment. Since 2001, HUD has awarded approximately \$10 billion in funding to support the housing and service needs of the homeless.

We are working especially hard to stop the revolving door for the chronically homeless. Early on in this Administration, President Bush set a goal to end chronic homelessness in America. If we are to be successful, we must help break a cycle of circumstances and behaviors that consistently place the chronically homeless on the streets.

And there is evidence that we are making progress. The investment by HUD and local communities is working. In November, HUD announced that, across the country, local communities saw a nearly 12 percent drop in the number of individuals who literally call the streets their home, nearly 20,000 fewer persons living on our streets. This was good news. It shows that the hard work of thousands of people is paying off, that our efforts can make a powerful, positive difference.

Of course, we still have a long way to go before ending chronic homelessness. There are still people living on the streets, many of them are mentally ill, addicted to alcohol and/or drugs, or physically disabled. These are the most vulnerable among us, the hardest-to-house and the hardest-to-serve. The chronically homeless are people who are homeless for more than a year or who continue to cycle back into homelessness. They are people who need serious, sustained assistance to overcome their homelessness.

Mr. Chairman, I know you are mindful of the need to help our nation's homeless veterans. Americans are deeply, profoundly grateful for the service and sacrifice of our nation's veterans. In the proposed budget, there is a request for \$75 million for our Veterans Affairs Supportive Housing Program (VASH). Prior to Fiscal Year 2008, this program had not been funded since 1993. Working with the Veterans Administration, we will create an additional 9,800 vouchers for FY09, bringing the total to approximately 20,000 homeless veterans being served through housing and social services, double the number of available housing vouchers.

Continuing HUD's Improved Management and Performance

Finally, I would like to discuss the management of the Department. For the first time since 1994, the Government Accountability Office (GAO) removed HUD's single-family housing mortgage insurance and rental housing assistance programs from the list of High-Risk federal programs. I am very proud of that fact.

I am also very pleased that HUD achieved a clean opinion in its 2007 financial statements, continuing a multi-year trend.

We need to build upon this progress. So, Mr. Chairman, I also want to mention that the \$313 million included in the request for our Working Capital Fund will enable the Department to make critical upgrades to our aging information technology (IT) systems. If we want to improve the delivery and control of the Department's significant program resources for the benefit of the people and communities we serve, then it is imperative that we have sufficient funding for IT systems modernization efforts. The \$65 million reduction of our 2008 request for IT funding was devastating. That reduction has stopped practically all HUD systems modernization efforts.

Mr. Chairman, this committee should know that without sufficient funding, we will be unable to modernize FHA's 25 year old mainframe systems to effectively support FHA program reforms. We will be unable to improve the automation of the Section 8 Project-Based Assistance contract renewal and payment processes. We will be unable to effectively implement asset management improvements over the public housing stock. We will continue to manage our \$16 billion a year Housing Choice Voucher Program through a cumbersome spreadsheet process rather than an automated database that can provide timely information for HUD and Congressional oversight. HUD has demonstrated the ability to successfully use its limited IT funding. I urge you to support the budget request for IT funding.

Conclusion

Overall, this is a good budget for the Department...balanced, reasonable, appropriate, and workable. It allows us to operate within a framework of cooperation and partnership with other federal agencies, state and local governments, and non-profit initiatives. The American people count on HUD...count on us for direct assistance, grants, professional administration, and high-quality public service. With this budget we meet those expectations. With this budget we can get the job done.

I also want to thank the employees at HUD for their extraordinary service during a very trying and difficult period. Mr. Chairman and members of the committee, I am sure that you would be extremely impressed by the day-to-day work product of our employees. I am very proud of my colleagues at HUD.

Mr. Chairman, as we proceed through the budget process, I look forward to working with you. I thank you and the committee for your consideration of this budget request.

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