

**Written Testimony of Shaun Donovan
Secretary of U.S. Department of Housing and Urban Development**

**"Legislative Proposals in the Department of Housing and Urban Development's
FY 2011 Budget Request"**

**Hearing before the Senate Committee on Banking, Housing and Urban Affairs
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Mr. Chairman, Ranking Member Shelby, and Members of the Committee, thank you for the opportunity to testify today regarding the fiscal year 2011 Budget for the Department of Housing and Urban Development, "Investing in People and Places."

A Changing Environment

I appear before you to discuss this Budget and HUD's related legislative proposals in a far different environment from that faced by the nation and the Department just one year ago. At that time, the economy was hemorrhaging over 700,000 jobs each month, housing prices were in freefall, residential investment had dropped over forty percent in just eighteen months, and credit was frozen nearly solid. Many respected economic observers warned that a second Great Depression was a real possibility, sparked of course by a crisis in the housing market. Meanwhile, communities across the country—from central cities to newly built suburbs to small town rural America—struggled to cope with neighborhoods devastated by foreclosure, even as their soaring jobless rates and eroding tax base crippled their ability to respond.

One year later, though there is clearly a long way to go, it is clear that the nation's housing market has made significant progress toward stability, and there are growing reasons for optimism about the economy more broadly.

Through coordinated efforts by Treasury, HUD, and the Federal Reserve, the Administration's goal has been to promote stability for both the housing market and homeowners. To meet these objectives, the Administration has developed a comprehensive approach using state and local housing agency initiatives, tax credits for homebuyers, neighborhood stabilization and community development programs, mortgage modifications and refinancing, and support for Fannie Mae and Freddie Mac. The Administration's efforts for homeowners have focused on giving responsible households an opportunity to remain in their homes when possible while they get back on their feet, or relocate to a more sustainable living situation.

This comprehensive, multi-faceted strategy has had a real impact on the market. As measured by the widely referenced FHFA index, home prices have been rising more or less steadily since last April. As recently as January of 2009 house prices had been projected to decline by as much as 5 percent in 2009 by leading major macro-economic forecasters.

More importantly, allow me to briefly explain what halting the slide in home prices and the Administration's measures to assist responsible homeowners have meant to middle-class families.

First, money in families' pockets. Mortgage rates which have been near historic lows over the past ten months have spurred a refinancing boom that has helped nearly 4 million borrowers save an average of \$1,500 per year – pumping \$7 billion annually into local economies and businesses, generating additional revenues for our nation's communities and benefiting our economy more broadly.

Second, security. As a result of stabilizing home prices and lower financing costs, home equity had increased by over \$900 billion over the first three quarters of 2009– more than \$13,000 on average for the nation's 78 million homeowners.

Third, increasing confidence about the future. Homeowner equity is key to consumer confidence and to bringing new borrowers back into the market. This dynamic has helped the economy to grow at the fastest rate in six years, and, in March, to create 162,000 jobs the largest job growth figures in 3 years.

The Federal Housing Administration (FHA) has been essential to this improved outlook– in the past sixteen months helping more than 1.1 million homeowners refinance into stable, affordable fixed-rate mortgages, assisting more than half million families to avoid foreclosure, guaranteeing approximately 30 percent of home purchase loan volume, and approximately one-third of all loans for first-time homebuyers. In addition, last month, the Administration announced important changes to both FHA and HAMP aimed at increasing the focus of our foreclosure mitigation efforts on homeowners who are under water and those who are facing challenges meeting their mortgage payments because of unemployment.

Of course, just as this crisis has touched different communities in different ways, so, too, have they rebounded at different paces. As a result, some regions continue to face difficulty, even as others are moving toward recovery. That is one reason why the President recently announced \$2.1 billion in funding to help families in 10 states that have suffered an average home price drop of over 20 percent from the peak - including an innovation fund that will expand the capacity of housing finance and similar agencies in the areas hardest-hit in the wake of the housing crisis.

These announcements continue the Administration's response to assist homeowners and stabilize neighborhoods, including through the nearly \$2 billion that HUD has obligated under the Neighborhood Stabilization Program to address the problem of blighted neighborhoods, targeting hard-hit communities across the country and including major awards in Ohio, Illinois, New Jersey, Pennsylvania and other areas that have been deeply affected by the current housing problems. The Administration continues to explore and refine ways to assist homeowners and stabilize neighborhoods struggling with foreclosures.

HUD has also played a key role in implementing the American Recovery and Reinvestment Act (ARRA), which, according to the nonpartisan Congressional Budget Office is already responsible for putting as many as 2.4 million Americans back to work and has put the nation on track toward a full economic recovery. And, I am appreciative of the support for our efforts in this area that Congress and the Members of this committee have shown.

HUD has now obligated 98 percent of the \$13.6 billion in ARRA funds stewarded by the Department - and disbursed \$3.7 billion. I would note that a portion of HUD's ARRA funding is fully paid out, or expended, only when construction or other work is complete—just as when individual homeowners complete payment after they have work done on their homes. Therefore, some of HUD's obligated, but not yet expended, funds are already generating jobs in the hard hit sectors of housing renovation and construction for the purposes of modernizing and "greening" public and assisted housing, reviving stalled low-income housing tax credit projects, and stabilizing neighborhoods devastated by foreclosures. Additional HUD-administered ARRA funds are providing temporary assistance to families experiencing or at risk of homelessness in these difficult economic times.

While the economy has a long way to go to reach full recovery, and the promising indicators emerging steadily are not being experienced by all regions or communities equally, it is clear that we have pulled back from the economic abyss above which the nation stood a year ago.

Roadmap to Transformation

HUD's fiscal year 2010 Budget, then, reflected a singular economic moment. During the last Administration, the Department's annual budget submissions chronically underfunded core programs, and many observers came to regard the agency as slow moving, bureaucratic, and unresponsive to the needs of its partners and customers. HUD's fiscal year 2010 budget request, \$43.72 billion (net of receipts generated by FHA and the Government National Mortgage Association, or "Ginnie Mae") was a 7 percent increase over the fiscal year 2009 enacted level of \$40.72 billion and sent the clear message that HUD's programs merited funding at levels sufficient to address the housing and community development needs of the economic crisis. It also reflected this Administration's belief that HUD could transform itself into the more nimble, results-driven organization required by its increased importance.

In response to HUD's fiscal year 2010 budget proposal, Roadmap to Transformation, Congress—with important support from this committee --provided a vote of confidence for which I want to express my deepest appreciation. The fiscal year 2010 appropriations legislation provided HUD programs \$43.58 billion (net of receipts), funding needed to stabilize the Department's programs across-the-board. Critically, the Budget also targeted \$258.8 million to the Department's proposed Transformation Initiative, the cornerstone of the agency's efforts to change the way HUD does business. For the first time, HUD has the flexibility to make strategic, cross-cutting investments in research and evaluation, major

demonstration programs, technical assistance and capacity building, and next generation technology investments to bring the agency fully into the 21st century.

Investing In People and Places

As a result of all this work—by Congress, HUD and across the Administration—we no longer confront an economy or a Department in extreme crisis. Still, much work remains, in much changed fiscal circumstances. Now that the economic crisis has begun to recede, President Obama has committed to reducing the federal deficit, including a three year freeze on domestic discretionary spending. HUD's fiscal year 2011 budget reflects that fiscal discipline. Net of \$6.9 billion in projected FHA and Ginnie Mae receipts credited to HUD's appropriations accounts, this Budget proposes overall funding of \$41.6 billion, 5 percent below fiscal year 2010. Not including FHA and Ginnie Mae receipts, the budget proposal is \$1.6 billion above the 2010 funding levels. These figures meant that we had difficult choices to make - and we chose to prioritize core rental and community development programs, fully funding Section 8 tenant-based and project-based rental assistance, the public housing Operating Fund, and CDBG.

At the same time, the Budget cuts funding for a number of programs, including the public housing capital fund, HOME Investment Partnerships, Native American Housing Block Grants (NAHBG), the 202 Supportive Housing Program for the Elderly, and the Section 811 Supportive Housing Program for Persons with Disabilities. In some instances, these are programs that received substantial ARRA funding (e.g., public housing capital and NAHBG), reducing the need for funds in fiscal year 2011. In the case of reductions to new capital grants—in public housing, Section 202, and 811—the Department is recognizing that HUD's partners must increasingly access other private and public sources of capital as HUD and the federal government are facing severe resource constraints. During this fiscal year, we will take administrative steps and work with this Committee on legislative reforms needed to modernize the 202 and 811 programs. Simultaneously, the Department has made the difficult decision to target HUD's housing investments to their most crucial and catalytic uses, primarily rental and operating assistance that best enable those partners to leverage additional resources.

As such, we believe this is a bold budget, with carefully targeted investments that will enable HUD programs to: house over 2.4 million families in public and assisted housing (over 58 percent elderly or disabled); provide tenant based vouchers to more than 2.1 million households (over 47 percent elderly or disabled), an increase of more than 100,000 over 2009; more than double the annual rate at which HUD assistance creates new permanent supportive housing for the homeless; and create and retain over 112,000 jobs through HUD's housing and economic development investments in communities across the country. In total, by the end of fiscal year 2011, HUD expects its rental assistance programs to reach nearly 5.5 million households, over 200,000 more than at the end of fiscal year 2009.

And in terms of reform, this Budget proposes fundamental change beyond the Department's fiscal year 2010 proposal. A year ago, urgent circumstances called for HUD's programs to be taken largely "as is" in order to pump desperately needed assistance into

the economy in time to make a critical difference. With the infusion of ARRA and fiscal year 2010 funding having stabilized HUD's programs, the time has come to begin transforming them—to make HUD's housing and community development programs, and the administrative infrastructure that oversees them, more streamlined, efficient, and accountable.

This Budget is a major step in that direction. Specifically, it seeks to achieve five overarching goals, drawn from an extensive strategic planning process that engaged over 1,500 internal and external stakeholders in defining the Department's transformation priorities and strategies.

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

With housing still representing the largest asset for most American households, it is essential that home prices continue to stabilize in order to restore the confidence of American consumers. Americans held roughly \$6.2 trillion in home equity in the third quarter of 2009, up from its lowest point of \$5.3 trillion in the first quarter of 2009. The central role of housing in the U.S. economy demands that federal agencies involved in housing policymaking rethink and restructure programs and policies to support housing as a stable component of the economy, and not as a vehicle for over-exuberant and risky investing.

With that in mind, the fiscal year 2011 Budget represents a careful, calibrated balancing of FHA's three key responsibilities: providing homeownership opportunities to responsible borrowers, supporting the housing market during difficult economic times and ensuring the health of the Mutual Mortgage Insurance (MMI) fund.

FHA provides mortgage insurance to help lenders reduce their exposure to risk of default. This assistance allows lenders to make capital available to many borrowers who would otherwise have no access to the safe, affordable financing needed to purchase a home. As access to private capital has contracted in these difficult economic times, borrowers and lenders have flocked to FHA and the ready access it provides to the secondary market through securitization by Ginnie Mae. FHA insures approximately thirty percent of all home purchase loans today and nearly half of those for first-time homebuyers. The increased presence of FHA -- and other institutions like Fannie Mae and Freddie Mac -- in the housing market, has helped support liquidity in the purchase market, helping us ride through these difficult times until private capital returns to its natural levels.

Not only is FHA ensuring the availability of financing for responsible first time home purchasers, it is also helping elderly homeowners borrow money against the equity of their homes through the Home Equity Conversion Mortgage (HECM). This program has grown steadily in recent years, to a volume of \$30.2 billion in FY 2009.

FHA is also providing several outlets of relief for homeowners in distress. First, and perhaps most significantly, it is helping homeowners refinance from unsustainable mortgages into 30 year, fixed-rate FHA-insured loans at today's much lower rates. On

March 26th, as part of the Administration's continued efforts to assist homeowners to avoid foreclosure, HUD announced adjustments to the FHA program that will allow lenders to provide additional refinancing options to those borrowers who owe more on their home than it is worth, in conjunction with a mandatory principal write down by their lender or mortgage investor. These adjustments will provide more opportunities for qualifying mortgage loans to be responsibly restructured and refinanced into FHA loans as long as the borrower is current on the mortgage and the lender reduces the amount owed on the original loan by at least 10 percent. We have also expanded the FHA loan modification program, known as FHA HAMP, to provide incentives for servicers to modify loans insured by the FHA. With the issuance of new rules on March 26 (Supplemental Directive 10-03), TARP-funded incentives will be available to borrowers and servicers whose loans are modified under the FHA-HAMP guidelines, corresponding to the pay-for-success HAMP incentive structure.

And finally, FHA is playing an important role in protecting homeowners and helping prospective homeowners make informed decisions. It is providing counseling to homeowners to help them avoid falling into unsustainable loans. And it is fighting mortgage fraud vigorously on all fronts, having suspended seven lenders, including Taylor, Bean and Whitaker, and withdrawn FHA-approval for over 300 others since last summer.

To support these important efforts, the Budget includes \$88 million for the Housing Counseling Assistance program, which is the only dedicated source of Federal funding for the full spectrum of housing counseling services. With these funds we also plan to continue our work to expand the number of languages in which counseling is available. In addition, the budget continues FHA's Mortgage Fraud initiative (\$20 million) launched in fiscal year 2010 as well as implementation of sweeping reforms to the Real Estate Settlement and Procedures Act (RESPA) beginning in January 2010 and the Secure and Fair Enforcement (SAFE) for Mortgage Licensing Act beginning in June 2010.

With this Budget, HUD is projecting that FHA will continue to play a prominent role in the mortgage market in fiscal year 2011. Accordingly, it requests a combined mortgage insurance commitment limitation of \$420 billion in fiscal year 2011 for new FHA loan commitments for the Mutual Mortgage Insurance (MMI) and General and Special Risk Insurance (GI/SRI) funds. The proposed total includes \$400 billion under the MMI Fund, which supports insurance of single family forward home mortgages and reverse mortgages under HECM; and \$20 billion under the GI/SRI Fund, which supports multifamily rental and an assortment of special purpose insurance programs for hospitals, nursing homes, and Title I lending. The budget requests a direct loan limitation of \$50 million for the MMI fund and \$20 million for the GI/SRI fund to facilitate the sale of HUD-owned properties acquired through insurance claims to or for use by low- and moderate-income families.

With FHA's temporarily increased role, however, comes increased risk and responsibility. That is why FHA has rolled out a series of measures over the last year to strengthen its risk and operational management. It has hired its first chief risk officer in its 75 year history and created an entire risk management organization and reporting structure, tightened its credit standards significantly and, as I mentioned, expanded its capacity to rein in or shut down lenders who commit fraud or abuse.

On January 20th of this year, FHA Commissioner Stevens proposed taking the following steps to mitigate risk and augment the MMI Fund's capital reserves: increase the mortgage insurance premium (MIP); update the combination of FICO scores and down payments for new borrowers; reduce seller concessions to industry norms; and implement a series of significant measures aimed at increasing lender responsibility and enforcement. And to strengthen its operational capacity, FHA has begun implementing a plan to significantly upgrade its technology infrastructure and increase its personnel, to ensure that both are in keeping with the growth of its portfolio and the increase in responsibility.

These changes merit additional explanation, as they not only put FHA on firmer footing and increase reserves, but also generate additional revenues in fiscal year 2011 to contribute to deficit reduction. First, insurance revenues from single family loan guarantees will grow by increasing the upfront premium to 225 basis points across all FHA forward product types (purchase, conventional to FHA refinances, and FHA to FHA refinances). The upfront premium increase was implemented by mortgagee letter issued on January 21, 2010 and will apply to all applications received on or after April 5, 2010.

Second, FHA is also proposing a "two-step" FICO floor for FHA purchase borrowers, which would reduce both the claim rate on new insurance as well as the loss rate experienced on the claims incurred. Purchase borrowers with FICO scores of 580 and above would be required to make a minimum 3.5% down payment; and those with FICO scores between 500-579 would be required to make a minimum down payment of 10%. Applicants below 500 would be ineligible for insurance. These changes are being proposed after an exhaustive review of FHA's actual claim performance data, which demonstrates that loan performance is best predicted by a combination of credit score and downpayment - simply raising one element without recognizing the impact of the layering of risk factors is not sufficient. We are considering how these changes might be applied to refinancing borrowers as well. FHA is proposing to publish the two-step FICO proposal in the Federal Register in short order with implementation later in 2010. In combination, these reforms—which are already permitted under current law—can be expected to produce \$4.2 billion in offsetting receipts in fiscal year 2011.

In addition, as noted in the proposed budget, while HUD is moving to increase the upfront premium to 225 basis points we are ultimately planning to reduce that premium to 100 basis points, offset by a proposed increase in the annual premium to 85 basis points for loans with loan-to-value ratios (LTV) up to and including 95% and to 90 basis points for LTVs above 95%. These changes to the annual premium will require legislative authority, and we are looking forward to working with this authorizing committee as part of that effort. This new premium structure more in line with GSE and private mortgage insurers' pricing, which facilitates the return of private capital to the mortgage market. Indeed, if these changes are adopted during the current fiscal year, the estimated value to the MMI fund would be \$300 million in additional funds each month, providing better underwriting for FHA loans and helping to replenish capital reserves.

If implemented, in combination with the two-step FICO floor, this change in the premium structure is projected to result in the \$5.8 billion in offsetting FHA receipts for fiscal year 2011 that is reflected in the Budget Appendix. In sum, FHA has taken the kinds of steps

necessary to make sure that it will remain strong and healthy enough to continue to fulfill its mission of serving the underserved and playing a vital counter-cyclical role in the housing market.

Goal 2: Meet the Need for Quality Affordable Rental Homes

Several recent national indicators have pointed to increasing stress in the U.S. rental housing market. Vacancy rates are on the rise as a result of the dampened demand and additional supply repurposed from the ownership market. Spreads between asking rents and effective rents are widening. Asking rents are now \$65 higher than effective rents (6.6% of the effective rent) - the largest gap over the past four years. While some new renters have been the beneficiaries of this softness, drawing concessions from distressed property owners, the budgets of many more low-income renters have been strained as household incomes fall, due to unemployment and lost hours worked.

Loss of income stemming from the recession is likely offsetting affordability gains from declining rents. Vacancies in the lower end of the market remain considerably lower than market levels overall, and the number of cost burdened low-income renters is on the rise. Based on estimates from the 2008 American Community Survey, 8.7 million renter households paid 50% or more of their income on housing, up from 8.3 million renter households in 2007. These figures do not include the over 664,000 people who experience homelessness on any given night.

As HUD Secretary, as well as the current Chair of the Interagency Council on Homelessness under President Obama, I am committed to making real progress in reducing these tragic figures. To do so requires substantial investment even in this difficult fiscal year. For this reason, the Budget provides \$1 billion for capitalization of the National Housing Trust Fund, to increase development of housing affordable to the nation's lowest income families. I look forward to working with the members of this committee to secure the funds.

In addition, HUD's rental assistance and operating subsidy programs have never been more needed, nor has the imperative to operate them efficiently been clearer. This budget takes three critical steps to meet this challenge.

- ***Increases investment in core rental assistance and operating subsidy programs***

This Budget invests over \$2.2 billion more than in fiscal year 2010 to meet the funding needs of the Tenant-based Rental Assistance (TBRA) program, the Project-based Rental Assistance (PBRA) program, and the public housing Operating Fund.

Tenant-based Rental Assistance

The Section 8 TBRA or Housing Choice Voucher (HCV) program is a cost-effective means for delivering decent, safe, and sanitary housing to low-income families in the private market, providing assistance so that participants are able to find and lease privately-owned housing. In fiscal year 2009, HUD assisted over two million families with this

program; and, in fiscal year 2010, we plan to assist over 76,000 more families through new incremental vouchers.

This Budget continues HUD's bedrock commitment to its largest program. The calendar year request for 2011 is \$19.6 billion, a \$1.4 billion increase over the 2010 Consolidated Appropriations Act and an amount estimated to assist 2.2 million households. This represents an increase of 34,466 families from fiscal year 2010 projections and 112,304 more than at the end of fiscal year 2009.

Of the \$19.6 billion request, \$17.3 billion will cover the renewal of expiring annual contribution contracts (ACC) in calendar year 2011; with \$1.8 billion for Administrative Fees; \$125 million for Tenant Protection vouchers; \$60 million to support Family Self-Sufficiency (FSS) activities; and up to \$66 million for disaster vouchers for families affected by Hurricanes Ike and Gustav. In addition, this Budget requests \$85 million for incremental vouchers to help homeless individuals, at-risk families with children, and families with special needs stabilize their housing situation and improve their health status, as well as \$114 million for the shift of the renewal of mainstream vouchers from the Section 811 account to the TBRA account.

Through this Budget, the Department reaffirms its commitment to improving the Section 8 program by designing a comprehensive development strategy to improve HUD Information Technology systems to better manage and administer the Voucher program; implementing an improved Section 8 Management Assessment Program (SEMAP) that will ensure strengthened oversight, quality control, and performance metrics for the voucher program; continuing the study to develop a formula to allocate administrative fees based on the cost of an efficiently managed PHA operating the voucher program; developing a study to evaluate current Housing Quality Standards and improve the unit inspection process; and eliminating unnecessary caps on the number of families that each PHA may serve.

Project-based Rental Assistance (PBRA)

PBRA assists more than 1.3 million low- and very low-income households in obtaining decent, safe, and sanitary housing in private accommodations. This critical program serves families, elderly households, disabled households, and provides transitional housing for the homeless. Through PBRA funding, HUD renews contracts with owners of multifamily rental housing—contracts that make up the difference between what a household can afford and the approved rent for an adequate housing unit in a multifamily development.

HUD is requesting a total of \$9.382 billion to meet PBRA program needs. This includes \$8.982 billion to be available in FY 2011 (in addition to the \$394 million previously appropriated) and \$400 million to be available in FY 2012. For fiscal year 2011, HUD estimates a need of \$8.954 billion of new Budget Authority for contract renewals and amendments. The need for Section 8 Amendment funds results from insufficient funds provided for long-term project-based contracts funded primarily in the 1970's and 1980's, when long-term contracts (up to 40 years) made estimating funding needs problematic, leading to frequent underfunding. The current practice of renewing expiring contracts for a

1-year term helps to ensure that the problem of inadequate funded contracts is not repeated. However, some older long-term contracts have not reached their termination dates and, therefore, have not yet entered the 1-year renewal cycle and must be provided amendment funds for the projects to remain financially viable. The Department estimates that total Section 8 Amendment needs in 2011 will be \$662 million. The Budget request continues the Department's commitment to provide full 1-year funding for contract renewals and amendments.

Public Housing Operating Fund

The public housing Operating Fund provides operating subsidy payments to over 3,100 public housing authorities (PHAs) which serve 1.2 million households in public housing. The fiscal year 2011 Budget requests \$4.8 billion, which will fully fund the Operating Fund. Full funding is essential to the proper operation of public housing, provision of quality housing services to residents, and effective use of Capital Fund resources.

- ***Begins to streamline the Department's rental assistance programs***

It does not take a housing expert to see that HUD's rental assistance programs desperately need simplification. HUD currently provides deep rental assistance to more than 4.6 million households through thirteen different programs, each with its own rules, administered by three operating divisions with separate field staff. Too often over time, additional programs designed to meet the needs of vulnerable populations were added without enough thought to the disjointed system that would result. This unwieldy structure ill serves the Department, our government and private sector partners, and—most importantly—the people who live in HUD-supported housing.

In my last job, as Commissioner of the New York City Department of Housing Preservation and Development, I personally experienced the challenges of working with HUD rental assistance to preserve and develop affordable housing at a large scale. While implementing the City's 165,000 unit New Housing Marketplace plan, it was a constant struggle to integrate HUD's rental assistance streams, and capital funding resources for that matter, into the local, state, and private sector housing financing that was absolutely necessary to leverage to get the job done.

But I was willing to deal with the transaction costs of engaging with HUD's less-than-ideally aligned subsidy programs for a simple reason: the engine that drives capital investment at the scale needed, in a mixed-finance environment, is typically a reliable, long-term, market-based, stream of federal rental assistance. Historically, no other mechanism—and no other source of government funding—has ever proven as powerful at unlocking a broad range of public and private resources to meet the capital needs of affordable housing. While highly imperfect, HUD's rental assistance programs are irreplaceable.

This said, tolerating the inefficiencies of the status quo is no longer an option. The capital needs of our Nation's affordable, federally-assisted housing stock are too substantial and too urgent. The Public Housing program in particular has long wrestled with an old

physical stock and a backlog of unmet capital needs that may exceed \$20 billion.⁽¹⁾ To be sure, nearly two decades of concentrated efforts to demolish and redevelop the most distressed public housing projects, through HOPE VI and other initiatives, has paid off. The stock is in better shape overall than it has been in some time,⁽²⁾ and the \$4 billion in ARRA funds targeted to public housing capital improvements are further stabilizing the portfolio. But this very progress has created a unique—but time limited— opportunity to permanently reverse the long-term decline in the Nation's public housing portfolio and address the physical needs of an aging assisted housing stock.

My many years of experience in dealing with affordable housing on a large scale—both in New York and overseeing HUD's multifamily assisted housing programs during the 1990's --have drilled home two key lessons. First, it is far more costly to build new units than to preserve existing affordable housing. And, second, an affordable housing project can limp along for some time with piecemeal, ad hoc strategies to address its accumulating capital backlog, but eventually the building will reach a "tipping point" where its deterioration becomes rapid, irreversible and expensive. This moment in time calls for a timely, crucial federal investment to leverage other resources to the task of maintaining the number of safe, decent public and assisted housing units available to our nation's poor families—an objective that at some point, soon, will cost the taxpayer substantially more to achieve by other means.

Nor can we afford to sustain the disconnect between HUD's largest rental and operating assistance programs, given the disproportionate impact of the recession on the recipients of HUD assistance and the communities where much of HUD's public and assisted housing stock remains. More than ever, communities of concentrated poverty need their public and assisted housing stock—even the most distressed projects that are the targets of our proposed Choice Neighborhoods initiative—to serve as anchors of broader neighborhood revitalization efforts. Simultaneously, in this challenging economy, tenants of HUD-subsidized projects also need the option to pursue opportunities for their families in other neighborhoods and communities as and when they arise, without losing the subsidy that is so crucial to maintaining their housing stability. Today, we lack the seamless connection that should exist between HUD's largest project-based assistance programs—PBRA and public housing—and the Housing Choice Voucher program, which leaves tenants of PBRA and public housing with limited ability to move to greater opportunity.

To address these issues and move HUD's rental housing programs into the housing market mainstream, HUD proposes to launch an ambitious, multi-year effort called the Transforming Rental Assistance (TRA) initiative.

¹ HUD is currently conducting a definitive Capital Needs study of the public housing portfolio.

² *Preserving Safe, High Quality Public Housing Should Be a Priority of Federal Housing Policy*, Barbara Sard and Will Fischer, October 8, 2008 (noting that "ninety percent of developments meet or exceed housing quality standards, although most developments are more than 30 years old, and many will need rehabilitation.").

This initiative is anchored by four guiding principles:

First, that the complexity of HUD's programs is part of the problem - and we must streamline and simplify our programs so that they are less costly to operate and easier to use at the local level. Ultimately, TRA is intended to move properties assisted under these various programs toward a more unified funding approach, governed by an integrated, coherent set of rules and regulations that better aligns with the requirements of other of federal, state, local and private sector financing streams.

Second, that the key to meeting the long-term capital needs of HUD's public and assisted housing lies in shifting from the federal capital and operating subsidy funding structure we have today—which exists in a parallel universe to the rest of the housing finance world—to a federal operating subsidy that leverages capital from other sources.

Third, that bringing market investment to all of our rental programs will also bring market discipline that drives fundamental reforms. Only when our programs are truly open to private capital will we be able to attract the mix of incomes and uses and stakeholders necessary to create the sustainable, vibrant communities we need.

And fourth, that we must combine the best features of our tenant-based and project-based programs to encourage resident choice and mobility. TRA reflects HUD's commitment to complementing tenant mobility with the benefits that a reliable, property-based, long term rental assistance subsidy can have for neighborhood revitalization efforts and as a platform for delivering social services. And in a world where the old city/suburb stereotypes are breaking down, and our metropolitan areas are emerging as engines of innovation and economic growth, we have to ensure our rental assistance programs keep up.

Under the 2011 budget, the first phase of TRA will provide \$350 million to preserve approximately 300,000 units of public and assisted housing, increase administrative efficiency at all levels of program operations, leverage private capital, and enhance housing choice for residents. With this request, we expect to leverage over \$7.5 billion in other public and private sector capital investment. PHAs and private owners will be offered the option of converting to long-term, market-based, property-based rental assistance contracts that include a resident mobility feature, which we are working to define in close collaboration with current residents, property owners, local governments and a wide variety of other stakeholders.

Most of the fiscal year 2011 downpayment on TRA, up to \$290 million, will be used to fill the gap between the funds otherwise available for the selected properties—in most cases the public housing Operating Fund subsidy—and the first-year cost of the new contracts. As noted above, a reliable funding stream will help place participating properties on a sustainable footing from both a physical and a financial standpoint, enabling owners to leverage private financing to address immediate and long-term capital needs, and freeing them from the need for annual capital subsidies.

Under this voluntary initiative, HUD will prioritize for conversion public housing and assisted multifamily properties owned by PHAs. Notably, in this regard, TRA delivers on

the promise of over a decade's worth of movement in the field of public housing toward the private sector real-estate model known as "asset-management," by finally providing public housing authorities with the resources to successfully implement this model in the projects they will continue to own. Three types of privately-owned HUD-assisted properties will also be eligible for conversion in this first phase: Section 8 Moderate Rehabilitation contracts administered by PHAs, and properties assisted under the Rent Supplement or Rental Assistance Programs. With this step, we can eliminate three smaller legacy programs that have become "orphans" as new housing programs have evolved. This consolidation will preserve these properties for residents, improve property management, and streamline HUD oversight to save the taxpayer money.

Much of the remaining funding, up to \$50 million, will be used to promote mobility by targeting resources to encourage landlords in a broad range of communities to participate in the housing voucher program and to provide additional services to expand families' housing choices. A portion of these funds also may be used to offset the costs of combining HCV administrative functions in regions or areas where locally-designed plans propose to increase efficiency and effectiveness as part of this conversion process.

By late April, the Administration plans to transmit to this Committee proposed legislation to authorize the TRA initiative and the long-term property-based rental assistance contracts and resident choice policies that are its cornerstone. Enactment of a number of the provisions in the Section 8 Voucher Reform Act is also an integral part of the Transforming Rental Assistance initiative. The Administration looks forward to working with Congress to finalize this vital legislation.

Without Congress' work on HOPE VI and the Quality Housing and Work Responsibility Act, this opportunity would never have arisen. This year, we can together begin to put both public and assisted housing on firm financial footing for decades to come, and start to meld HUD's disparate rental assistance and capital programs into a truly integrated federal housing finance system. I hope that you will help HUD make this breakthrough by enacting these key pieces of legislation.

- ***Increases investment in proven and restructured HUD homeless assistance programs***

The budget also proposes to increase funding for HUD's highly effective Homeless Assistance Grants by nearly \$200 million fiscal year 2010, to \$2.055 billion in fiscal year 2011. I would like to thank Senator Reed and the leadership of this Committee for literally years of work to restructure and modernize these programs to reflect over two decades of research and on-the-ground experience combating homelessness. As you know, these efforts came to fruition in May of last year, with enactment of the Homeless Emergency Assistance and Rapid Transition to Housing, or "HEARTH" Act.

Fiscal year 2011 marks the first year of implementation of the HEARTH Act, and the Department's proposed funding level will enable local homeless assistance planning and implementation collaboratives--known as Continuums of Care-- to do so by better addressing the unique dynamics of homelessness in rural communities, improving

performance-management and outcome focus within local homeless assistance systems, and implementing evidence-based practices such as permanent supportive housing and homelessness prevention. The Department looks forward to working with you to making minor adjustments to HEARTH to facilitate this implementation process in light of some practical obstacles our Special Needs Assistance Programs and Services office is confronting.

With respect to homelessness prevention, I would call to the Committee's attention the recent publication of a significant study by HUD's Office of Policy Development and Research entitled "Costs Associated With First-Time Homelessness for Families and Individuals." This examination of the costs incurred within homeless and mainstream service delivery systems in six communities as diverse as upstate South Carolina to large cities like Houston and Washington, D.C. provides compelling support for continuing to apply the old adage "an ounce of prevention is worth a pound of cure" in the context of homelessness—which ARRA did by providing \$1.5 billion in Homeless Prevention and Rapid Re-housing Program (HPRP) grants and the HEARTH Act continued through the permanent authorization of a similar prevention program.

We have long known that chronic homelessness generated such substantial costs within homeless and mainstream systems that evidence-based interventions to end chronic homelessness, such as permanent supportive housing, generate savings across systems nearly equal to their costs (efficiently capturing these savings across executive branch and legislative 'silos' at various levels of government is, of course, an ongoing challenge). This is why recent federal efforts have focused on "moving the needle" on chronic homelessness, with the result that chronic homelessness dropped 30% in the four years from 2005 through 2008, certainly one of the greatest social welfare policy achievements of the past decade. It is now increasingly clear that even first time homelessness incurs substantial costs, and that the best way to avoid these costly interactions is to keep vulnerable households from becoming homeless in the first place.

In sum, the Department's fiscal year 2011 Homeless Assistance Grants funding request reflects the paradigm shift this Committee helped to produce within the nation's homeless system, through the HEARTH Act, and will allow the Administration to continue making progress in ending chronic homelessness and meet the growing need among homeless families during this economic downturn. Finally, as the current Chair of the Interagency Council on Homelessness, I look forward to submitting to Congress next month, and working with you to implement, the five year federal strategy to address homeless mandated by the HEARTH Act.

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

A growing body of evidence points to the role housing plays as an essential platform for human and community development. Stable housing is the foundation upon which all else in a family's or individual's life is built - absent a safe, affordable place to live, it is next to impossible to achieve good health, positive educational outcomes, or reach one's full economic potential. Indeed, for many persons with disabilities living in poverty, lack of stable housing as discussed above, leads to costly cycling through crisis-driven systems

like emergency rooms, psychiatric hospitals, detox centers, and even jails. By the same token, stable housing provides an ideal launching pad for the delivery of healthcare and other social services focused on improving life outcomes for individuals and families. As noted above, a substantial level of research has established, for example, that providing permanent supportive housing to chronically ill, chronically homeless individuals and families not only ends their homelessness, but also yields substantial cost savings in public health, criminal justice, and other systems—often nearly enough to fully offset the cost of providing the permanent housing and supportive services. More recently, scholars have focused on housing stability as an important ingredient for children's success in school—unsurprisingly, when children are not forced to move from place to place and school-to-school, they are more likely to succeed academically.

Capitalizing on these insights, HUD is launching efforts to connect housing to services that improve the quality of life for people and communities. The fiscal year 2011 budget proposes the following important initiatives:

- ***Connects formerly homeless tenants of HUD-housing to mainstream supportive services programs***

The Department requests \$85 million for incremental voucher assistance for the new Housing and Services for Homeless Persons Demonstration to support groundbreaking collaborations with the Department of Health and Human Services (HHS) and the Department of Education. This demonstration is premised on the Administration's firm belief that targeted programs alone cannot end homelessness. Mainstream housing, health, and human service programs will have to be more fully engaged to prevent future homelessness and significantly reduce the number of families and individuals who are currently homeless. Two separate initiatives will be funded in an effort to demonstrate how mainstream programs can be aligned to significantly impact homelessness.

One initiative will focus on individuals with special needs who are homeless or at risk of homelessness. This initiative is designed to model ways that resources across HUD and HHS can be brought to bear to address the housing and service needs of this vulnerable population. Recently released data shows that over 42 percent of the homeless population living in shelters has a disabling condition. The demonstration would combine Housing Choice Vouchers with health, behavioral health and other support services to move and maintain up to 4,000 chronically homeless individuals with mental and substance use disorders into permanent supportive housing.

Vouchers will be targeted to single, childless adults who are homeless and who are already enrolled in Medicaid through coverage expansion under state Medicaid waivers or state only initiatives. In addition, HHS is seeking \$16 million in its fiscal year 2011 budget request to provide wraparound funding through grants administered by the Substance Abuse and Mental Health Services Administration to promote housing stability and improvements in health outcomes for this population. HUD and HHS will jointly design the competitive process and conduct an evaluation to determine: (1) the cost savings in the healthcare and housing systems of the proposed approach, (2) the efficacy of replication,

and (3) the appropriate cost-sharing among federal agencies for underwriting services that increase housing stability and improve health and other outcomes.

Another initiative will establish a mechanism for HUD, HHS and Department of Education programs to be more fully engaged in stabilizing homeless families, ultimately resulting in reducing the costs associated with poor school performance and poverty. This initiative strategically targets these resources to: (1) identify families who are homeless or at risk of homelessness, (2) intervene with the appropriate array of housing assistance, income supports, and services to ensure that the family does not fall into the shelter system or onto the street (or if already homeless that the family is stably housed and does not return to homelessness), and (3) provide the tools necessary to assist the family to build on its resources to escape poverty and reach its highest possible level of economic security and self-sufficiency.

HUD will make available a minimum of 6,000 Housing Choice Vouchers on a competitive basis and jointly design the competitive process with HHS and the Department of Education. Winning proposals will have to show that the new vouchers are being targeted to communities with high concentrations of homeless families. With guidance from HHS, states will need to demonstrate how they will integrate HUD housing assistance with other supports—including TANF—these families will need to stabilize their housing situation, foster healthy child development, and prepare for, find, and retain employment. HHS will provide guidance to state TANF agencies and other relevant programs to explain this initiative and their role in both the application for the vouchers and the implementation of the program. DoE will assist with identifying at-risk families with children through their network of school based homelessness liaisons, and providing basic academic and related supports for the children. Locally, applicants will need to show that they have designed a well-coordinated and collaborative program with the TANF agency, the local public schools, and other community partners (e.g., Head Start, child welfare, substance abuse treatment, etc.).

Collectively, these initiatives represent an unprecedented, "silo-busting" alignment of federal resources to address the needs of some of the country's most vulnerable individuals and families. At the same time, we believe they will save the taxpayer significantly in the long run. This innovative approach will also involve some collaboration across subcommittee jurisdictional lines, and we look forward to working with the members of this panel in determining how best to facilitate that joint action.

- ***Modernizes the 202 and 811 Supportive Housing Programs for the Elderly and Disabled***

As the Department begins the process of restructuring its rental assistance programs, it must also ensure that its programs providing capital grants and rental assistance that are sized to the actual costs to operate a project ('budget-based' or 'operating cost-based') are well designed for the world of housing finance in the 21st century. Beyond public and assisted housing—the focus of the TRA initiative—the most prominent examples of such funding streams are the Section 202 and 811 programs, which couple housing and services for the nation's poor elderly and disabled, respectively.

Although they have provided critical housing for thousands of residents, these programs are in need of modernization. Project sponsors no longer receive enough funding per grant for the 202 and 811 programs to be a "one-stop shop" to capitalize and sustain a project, yet they are subject to a level of bureaucratic oversight that suggests they are. This regulatory structure also makes it difficult for project sponsors to work with other financing streams, such as low income housing tax credits, even as the average grant size requires accessing other capital sources. As a result, project development is slowed and, coupled with outdated geographic allocation formulae, limited resources are spread too thin to reach scale at either the project or national programmatic levels. In 2009, the 202 program produced only 3,049 units with an average project size of 44 units and the 811 program produced only 661 units with an average project size of 10 units.

Approximately 10 times as many units are produced under the Low Income Housing Tax Credit program. And under the status quo, the total annual production of units will continue to decrease as the cost of supporting existing 811/202 properties consumes more and more of the overall funding allocation. This threatens to make the programs increasingly marginal for the nation's elderly and disabled.

Accordingly, HUD requests a suspension of funding for Section 202 and 811 Capital Advance Grants in fiscal year 2011 in order to redesign the programs to better target their resources to meet the current housing and supportive service needs of frail elderly and disabled very low-income households. The redesigned programs will maximize HUD's financial contribution through enhanced leveraging requirements and will also encourage or require partnerships with HHS and other services funding streams to create housing that, while not medically licensed, still effectively meets the needs of very low-income elderly and disabled populations unable to live fully independently. The program reforms for both 202 and 811 will include the following: 1) new requirements to establish demand to ensure meaningful impact of dollars awarded; 2) raised threshold for sponsor eligibility to ensure the award of funds only to organizations with unique competency to achieve the program goals; 3) streamlined processing to speed development timeframes; 4) broader benefits of program dollars achieved by facilitating supportive services provided by Medicaid/Medicare Waiver programs such as the Program of All-inclusive Care for the Elderly (PACE) model services to 202 project residents, 5) encouraging better leveraging of other sources of funding, such as low income housing tax credits, and 6) integrating 811 programs within larger mixed finance, mixed use projects.

Goal 4: Build Inclusive and Sustainable Communities Free from Discrimination

The Department's approach to this objective is informed by the Obama Administration's landmark, federal government-wide review of "place-based" policies for the first time in over three decades.

Place is already at the center of every decision HUD makes. HUD's programs today reach nearly every neighborhood in America -- 58,000 out of the approximately 66,000 census tracts in the U.S. have one or more unit of HUD assisted housing. But we have taken this opportunity to renew our focus on place, with the result that the proposed FY 2011 Budget

allows HUD to better nurture sustainable, inclusive neighborhoods and communities across America's urban, suburban, and rural landscape.

One aspect of HUD's refined place-based approach involves making communities sustainable for the long-term. Sustainability includes improving building level energy efficiency, cutting carbon emissions through transit-oriented development, and taking advantage of other locational efficiencies. But sustainability also means creating "geographies of opportunity," places that effectively connect people to jobs, quality public schools, and other amenities. Today, too many HUD-assisted families are stuck in neighborhoods of concentrated poverty and segregation, where one's zip code predicts poor educational, employment, and even health outcomes. These neighborhoods are not sustainable in their present state.

This Budget lays the groundwork for advancing sustainable and inclusive growth patterns at the metropolitan level, communities of choice at the neighborhood scale, and energy efficiency at the building scale. Specifically, the fiscal year 2011 Budget calls for the following series of programs and funding levels.

- ***Supports and improves the federal government's premier community development program***

The economic downturn and foreclosure crisis have significantly depleted resources in state and local governments while increasing demand for services. Revenue declines often turn quickly into layoffs and cuts in services for the poor. Meanwhile, community development investments have a heightened role in economic redevelopment and stabilization for neighborhoods and regions across the country. During these difficult economic times, it is critical that the Administration support and enhance community development programs, and partner with grantees in developing strategies to increase economic vitality, build capacity, and build sustainable communities and neighborhoods of opportunity. Since 1974, the Community Development Block Grant (CDBG) program has provided formula grants to cities and states to catalyze economic opportunity and create suitable living environments through an extensive array of community development activities.

The fiscal year 2011 Budget proposes a total of \$4.380 billion for the Community Development Fund, which includes:

- \$3.99 billion for CDBG formula distribution, to meet the President's campaign promise to fully fund CDBG. Simultaneously, the Department proposes a number of improvements to the CDBG program, including revamping the consolidated plans developed by state and local governments, greater accountability, and better performance metrics.
- \$150 million in funding for the second year of the Sustainable Communities Initiative. The initiative has four components in 2011, described below. HUD looks forward to working with the Committee and in particular the Chairman, who has played an important leadership role on this set of issues, to refine these proposals.

1. Sustainable Communities Planning Grants administered by HUD in collaboration with the Department of Transportation (DOT) and the Environmental Protection Agency (EPA). These grants will catalyze the next generation of integrated metropolitan transportation, housing, land use and energy planning using the most sophisticated data, analytics and geographic information systems. Better coordination of transportation, infrastructure and housing investments will result in more sustainable development patterns, more affordable communities, reduced greenhouse gas emissions, and more transit-accessible housing choices for residents and firms.
 2. Sustainable Communities Challenge Grants to help localities implement Sustainable Communities Plans they will develop. These investments would provide a local complement to the regional planning initiative, enabling local and multi-jurisdictional partnerships to put in place the policies, codes, tools and critical capital investments to achieve sustainable development patterns.
 3. The creation and implementation of a capacity-building program and tools clearinghouse, complementing DOT and EPA activities, designed to support both Sustainable Communities grantees and other communities interested in becoming more sustainable.
 4. A joint HUD-DOT-EPA research effort designed to advance transportation and housing linkages at every level our agencies work on.
- \$150 million for the Catalytic Investment Competition Grants program to create jobs by providing economic development and gap financing to implement targeted economic investment for neighborhood and community revitalization. For too long, communities have lacked the kind of place-based, targeted, 'game-changing' federal capital investment program in the community and economic development arena that HOPE VI has proven to be with respect to severely distressed public housing. The Catalytic Investment Competition would rectify that imbalance by providing 'gap financing' for innovative, high impact economic development projects at scale that create jobs. The program will create a competitive funding stream that is responsive to changes in market conditions, leverages other neighborhood revitalization resources (including formula CDBG funds), and ultimately increases the economic competitiveness of distressed communities and neighborhoods.

Under this proposal, my office would be permitted to consider how much and to what extent projects complement and leverage other community development and revitalization activities such as the Choice Neighborhoods Initiative, Promise Neighborhoods, HOPE VI, Sustainable Communities, or other place-based investments in targeted neighborhoods to improve economic viability, extend neighborhood transformation efforts, and foster viable and sustainable communities. Applicants must develop a plan that includes measurable outcomes for job creation and economic activity, exhibit capacity to implement the plan, and

demonstrate approval for the plan from the local jurisdiction. Applicants will be required to leverage other appropriate federal resources, including but not limited to, Community Development Block Grant formula funding and Section 108 Loan Guarantees. This will support HUD's effort to partner with grantees to more effectively target community development investments towards neighborhoods with greatest need, disinvestment, or potential for growth.

- ***Enhances and broadens capacity building for our partners***

The fiscal 2011 Budget provides \$60 million for a revamped Capacity Building program. HUD must embrace a 21st century vision for supporting the affordable housing and community development sector and will reframe the Section 4 program, including renaming the program "Capacity Building", in order to reflect that vision. The objective is to expand HUD's funding capabilities, and encourage open competition through mainstream and consistent program funding for these activities.

Working with cities and states to readily understand how to meet the needs of their communities, leverage private and other kinds of resources, and align existing programs is fundamental to building resilience in tough economic times. Increasing capacity at the local level is critical as jurisdictions partner with the Administration in implementing key initiatives such as Choice Neighborhoods, Sustainable Communities, and the Catalytic Competition and work to restore the economic vitality of their communities. This enhanced program will include local governments as technical assistance service recipients.

- ***Takes Choice Neighborhoods to scale***

The Administration has also proposed authorizing legislation for Choice Neighborhoods, funded at \$65 million in fiscal year 2010 on a demonstration basis, and at \$250 million in the 2011 Budget. I am appreciative that Congress was willing to fund Choice Neighborhoods on a demonstration basis in FY 2010, and HUD is now requesting that the program be expanded to a level where its impact can be significantly broader.

This initiative will transform distressed neighborhoods where public and assisted projects are concentrated into functioning, sustainable mixed-income neighborhoods by linking housing improvements with appropriate services, schools, public assets, transportation, and access to jobs. A strong emphasis will be placed on local community planning for school and educational improvements including early childhood initiatives. Choice Neighborhood grants would build upon the successes of public housing transformation under HOPE VI to provide support for the preservation and rehabilitation of public and HUD-assisted housing, within the context of a broader approach to concentrated poverty. In addition to public housing authorities, the initiative will involve local governments, non profits and for profit developers in undertaking comprehensive local planning with input from the residents and the community.

Additionally, HUD is placing a strong emphasis on coordination with other federal agencies, with the expected result that federal investments in education, employment, income support, and social services will be better aligned in targeted neighborhoods. To

date, the Departments of Education, Justice and HHS are working with HUD to coordinate investments in neighborhoods of concentrated poverty, including those targeted by Choice Neighborhoods. We have forwarded our legislative proposal to this Committee and its House counterpart and look forward to working with you to enact it.

- ***Protects consumers from discrimination in the housing market and affirmatively furthers the goals of the Fair Housing Act***

The Budget proposes \$61.1 million in support of the fair housing activities of HUD partners. Some sources estimate that more than 4 million acts of housing discrimination occur each year. To meaningfully address that level of discrimination, the Department, in addition to directing its own fair housing enforcement and education efforts, must engage outside partners. Therefore, this budget funds state and local government agencies to supplement HUD's enforcement role through the Fair Housing Assistance Program (FHAP) and provides funding also to nonprofit fair housing organizations that provide direct, community-based assistance to victims of discrimination through the Fair Housing Initiatives Program (FHIP). The entities participating in the two programs both help individuals seek redress for discrimination they have suffered and help eliminate more wide-scale systemic practices of discrimination in housing, lending, and other housing-related services. This Budget provides \$28.5 million to state and local agencies in the FHAP and \$32.6 million to fair housing organizations through the FHIP.

This budget does not continue a \$10 million initiative within the FHIP program, funded in fiscal year 2010, specifically directed at mortgage lending discrimination. However, fair housing funding, generally, and FHIP funding, in particular, remain substantially higher than in fiscal year 2009. Overall, the \$61.1 million requested this year for fair housing activities overall represents a 12 percent increase over fiscal year 2009's enacted level of \$53.5 million, and the \$32.6 million requested for FHIP, in particular, is fully 18 percent above the \$27.5 million in FY2009.

Since its passage in 1968, the Fair Housing Act has mandated that HUD shall "affirmatively further fair housing" in the operation of its programs. This requires that HUD and recipients of HUD funds not only prohibit and refrain from discrimination in the operation of HUD programs but also take pro-active steps to overcome effects of past discrimination and eliminate unnecessary barriers that deny some populations equal housing opportunities. To assist recipients in meeting these obligations, the Department is revising its regulations to clearly enumerate the specific activities one must undertake to "affirmatively further fair housing" and the consequences for failure to comply. To support this effort, \$2 million of the FHIP budget will support a pilot program whereby fair housing organizations help HUD-funded jurisdictions comply with these regulations.

Finally, I want to emphasize that as HUD works through the Choice Neighborhoods initiative and across all of its programs to revitalize neighborhoods, and to enable families to choose to move to other neighborhoods with lower poverty and greater economic opportunity, HUD will strive to ensure that newly revitalized neighborhoods remain affordable, inclusive places for low-income people to live.

Goal 5: Transform the Way HUD Does Business

In light of recent natural disasters and the housing and economic crises, last year HUD saw a pressing need for adaptability and change. To become an innovative agency with the capacity to move beyond legacy programs, shape new markets and methods in the production and preservation of affordable housing, green the nation's housing stock, and promote sustainable development in communities across America, the Department had to remake itself.

To accelerate the Department's transformation, the fiscal year 2011 Budget makes the following vital reforms.

- ***Develops a basic data infrastructure and delivers on Presidential research and evaluation priorities***

HUD requests \$87 million for the Office of Policy Development and Research, an increase of \$39 million from FY 2010, to continue the transformation of PD&R into the nation's leading housing research organization. The role of housing in starting the economic crisis, and the importance of housing issues to the nation's economy, shows the urgent need for this research. These funds would be used for three critical activities:

Basic Data Infrastructure. Continue the investment made in fiscal year 2010 to support the collection and dissemination of the core data needed to support effective decision making about housing. HUD's request for this purpose is \$55 million, which is \$7 million more than the fiscal year 2010 appropriated level of \$48 million. This will be used to conduct housing surveys—including full funding for the American Housing Survey—support enhanced research dissemination and clearinghouse activities, and underwrite a Young Scholars research program.

Presidential Research and Development Initiative. As part of the Administration's Research and Development initiative that is tied to the President's national goals of energy, health and sustainability, the Department proposes to administer \$25 million for research on the linkages between the built environment and health, hazard risk reduction and resilience, and the development of innovative building technologies and building processes.

Presidential Evaluation Initiative. Also for fiscal year 2011, the President is proposing to fund rigorous evaluations of critical programs to inform future policy discussions. The \$7 million proposed will supplement funding from the Transformation Initiative set-aside to support rigorous evaluations of the Family Self-Sufficiency Program, potential Rent Reform strategies, and the Choice Neighborhoods program.

- ***Maintains the Department's existing technology infrastructure***

HUD requests \$315 million for the Working Capital Fund, to cover the steady state operations, corrective maintenance of HUD's existing technology systems, and the re-competition of HUD's infrastructure support contract. As with FY 2010, this does not

include the "next generation technology" development that would be funded through the Transformation Initiative, as described below. The bulk of the fiscal year 2011 request (\$243.5 million) would be in the form of a direct appropriation. In addition, HUD seeks a \$71.5 million transfer from FHA to pay for its share of infrastructure costs and system maintenance.

- ***Provides flexibility and resources needed to fuel agency transformation***

As in fiscal year 2010, the Department again seeks the authority to set-aside up to 1 percent of HUD's total budget for an agency wide Transformation Initiative.

HUD's FY 2010 Transformation Initiative was intended to indeed be transformational. The resources it provides are allowing us to take long-overdue steps to upgrade and modernize our department and allow it to function as a 21st century organization. As one example, it is helping us replace computer programs written in COBOL in the 1980s with those written in the flexible and powerful languages of 2010. In addition, HUD has not conducted a major demonstration since the 1990s, when the Moving to Opportunity study was conducted. This demonstration is still yielding important evidence on how mobility and rental assistance interact that guides policy. And local government capacity to effectively use federal resources varies widely and leaves some communities at risk of always lagging the pack.

Further, even in the instance that efforts such as technical assistance were adequately funded, they were funded in silos - making cross-cutting initiatives that achieve the biggest bang for the buck next to impossible.

The TI approach we propose—allowing for the flexibility to take **up to** 1 percent of our budget and devoting it to four key areas—is similar to the approach applied by many cutting-edge institutions. This recognizes not only the need to have funding targeted to overhead - but the ability to respond to changing circumstances that may require overhead to consume an increased share of the budget, a change in the mix of activities funded and cross-cutting initiatives.

The flexibility inherent in this TI structure allows for the more nimble, responsive agency required in a long budget process where individual research ideas or investment proposals made in January might have been usurped by developments through the course of the year. A good example would be the \$50 million in Neighborhood Stabilization technical assistance HUD made available to communities through ARRA. Full funding of the Transformation Initiative will enable HUD to take such an approach to scale and continue the delivery of a new level of technical assistance and capacity building to Federal funding recipients, recognizing that human capital, technical competence and institutional support are critical for the success of HUD's partner organizations.

And while we appreciate that fact that Congress did recognize this reality in funding this effort for FY 2010 at \$258 million, which has begun an important process of increasing investment and bridging silos, we renew our request for authority to use up to 1 percent. I would note that this past year we received 110 groundbreaking research, information

technology and technical assistance proposals internally -- but we were only able to fund a little over half of these requests. Further, of the demonstrations and IT projects that were funded in 2009, many were multi-year projects that we have had to plan and operate, in all but the most urgent circumstances, with single-year funding.

Salaries and Expenses Central Fund: Building on the principle of the Transformation Initiative, the Budget requests the creation of a Salaries and Expenses Central Fund, funded through a one percent transfer from each of HUD's salaries and expenses accounts. The Fund will provide targeted, temporary infusions of resources to any of HUD's program offices in order to increase our responsiveness to unanticipated crises and new challenges through the hiring of staff with appropriate expertise. One example of how this type of funding might be used would be in the instance of a national disaster - in response to which HUD would be expected to play a key role. Another would be FHA, which inside of three years has temporarily expanded from insuring 2 percent of the market to, as mentioned previously, approximately a third.

Conclusion

In sum, this Budget continues the transformation begun with the 2010 Budget - With the housing market showing signs of stabilization, our economy beginning to recover and the need for fiscal discipline crystal clear, now is the moment to reorient HUD for the challenges of the 21st century - retooling its programs and initiatives so it can better fulfill its mission to serve American households and communities more effectively and more efficiently over decades to come. I am proud of the progress we have begun to make in these areas with the support of Congress, and I look forward to our continued progress through the proposals outlined in the fiscal year 2011 Budget. Thank you again for the opportunity to appear before you to discuss HUD's proposed budget. And with that, Mr. Chairman, I would be glad to answer any questions.