U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
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on

"FY 2013 Budget Request for the Department of Housing and Urban Development"

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Chairman Johnson, Ranking Member Shelby and Members of the Committee, thank you for the opportunity to testify today regarding the fiscal year 2013 Budget for the Department of Housing and Urban Development, *Housing and Communities Built to Last*.

I appear before you to discuss this Budget in an economic environment that is significantly improved from when the President took office. An economy that was shrinking is growing again – and instead of rapid job loss, more than 3.2 million new private sector jobs have been created in the last 22 months, and national unemployment has fallen to a near 3-year low. But we know there's still more work to be done to ensure that America can create an economy built to last – with good jobs that pay well and security for the middle class.

HUD's Fiscal Year 2013 Budget tackles these challenges head on: by helping responsible families at risk of losing their homes; by providing quality affordable rental housing to some of our nation's most vulnerable families; by transforming neighborhoods of poverty to ensure we are not leaving a whole generation of our children behind in our poorest communities; by rebuilding the national resource that is our federally-assisted public housing stock and ensuring that its tenants are part of the mobile, skilled workforce our new global economy requires; and by leveraging private sector investments in communities to create jobs and generate the economic growth our country needs. Indeed, this Budget will support hundreds of thousands of jobs both directly and indirectly, serving as a powerful engine for job creation in the places that need them most.

Our Budget provides $44.8 billion for HUD programs, an increase of $1.4 billion, or 3.2 percent, above fiscal year 2012. This program funding level (i.e., gross budget authority) is offset by $9.4 billion in projected FHA and Ginnie Mae receipts, leaving net budget authority of $35.4 billion, or 7.3 percent below the fiscal year 2012 enacted level of $38.2 billion. The Budget reflects the reality that we cannot create an economy built to last without taking responsibility for our deficit. The caps set by the Budget Control Act of 2011 promise over $907 billion in total discretionary cuts over the next 10 years, and every department shares a responsibility to make tough cuts so there's room for investments to speed economic growth. To maintain our commitment to fiscal discipline, this Budget invests in improving the infrastructure and technological systems critical to reforming the government to be leaner, more transparent, and ready for the 21st century. Moreover, by providing a menu of key reforms – including to some of our largest rental assistance programs – this Budget simplifies and aligns policies to be more efficient and effective, while saving the taxpayer hundreds of millions of dollars. To be clear, not all of the reforms we're proposing are easy. Indeed, this Budget makes tough choices in order to contribute to deficit reduction in a substantial way.

Of course, as several Members of this committee who also serve on the Appropriations Committee are well aware, last week the Appropriations Committee approved its version of the FY 2013 Transportation-HUD funding bill. And, just as we had to make many tough decisions in developing our budget, so the members of the Appropriations Committee had to make many of the same kinds of calculations in drafting and approving their FY 2013 T-HUD legislation. The passage of that bill is an important step in the 2013 funding process, but there is still a long way to go. HUD is in the process of reviewing the bill, but from an overall perspective, I am very appreciative of the committee's work under extremely tight fiscal constraints to fund a wide range of key priorities, and I look forward to continued discussions about funding levels with the members of both the Appropriations Committee and this committee.

Responding to the Crisis

Much has happened in the three years since HUD submitted its fiscal year 2010 Budget. Only weeks before the Bush Administration and Congress had taken dramatic steps to prevent the financial meltdown, the nation was losing 753,000 jobs a month, our economy had shed jobs for 22 straight months, house prices had declined for 30 straight months, and consumer confidence had fallen to a 40-year low.

In the face of an economic crisis that experts across the political spectrum predicted could turn into the next Great Depression, the Obama Administration had no choice but to take aggressive steps. The Federal Reserve and Treasury helped keep mortgage interest rates at record lows. To provide access to these low interest rates, the Administration supported Fannie Mae and Freddie Mac, while HUD's Federal Housing Administration (FHA) stepped in to play a critical role in helping to stabilize the housing market. The Administration proposed, and Congress enacted, a homebuyer tax credit to spur demand in the devastated housing sector. And we took steps to help families keep their homes – through mortgage modifications and FHA's loss mitigation efforts.

The results of these extraordinary but necessary actions are clear. Since April of 2009, more than 5.6 million borrowers have received mortgage modifications with affordable monthly payments, nearly 14 million families have been able to refinance their homes, and foreclosures are down by nearly 50 percent.

Earlier this month, the U.S. District Court for the District of Columbia approved the settlement that the Justice Department had reached with the nation's largest mortgage servicers over mortgage loan servicing and foreclosure abuses. This historic settlement, negotiated with the Obama Administration and a bipartisan coalition of attorneys general from 49 states, provides at least $25 billion on behalf of American homeowners.

The product of sixteen months of intensive negotiations between the five banks and an unprecedented coalition of state attorneys general and federal agencies, including the Departments of Justice, Treasury, and HUD, that crossed partisan lines, the settlement helps families keep their homes and reduces the shadow inventory by providing relief to homeowners, in part by forcing banks to reduce the principal balance on many loans, refinancing loans for "underwater" borrowers. In addition the settlement will pay billions of dollars to states to help stabilize communities and cover the costs associated with the foreclosure crisis and consumers who have been foreclosed upon.

Creating an Economy Built to Last

Now, having prevented our economy from falling into a second Great Depression, the Administration is focused on ensuring that we create an economy built to last, which makes strategic investments in our communities but also takes responsibility for our deficit. For HUD, that meant using four core principles to develop our budget:

1. Continuing to provide critical support for the housing market while bringing private capital back into the market;
2. Protecting current residents – and improving the programs that serve them;
3. Continuing progress on signature initiatives to provide communities with the tools they need to speed economic growth; and
4. Reducing regulatory burdens and increasing efficiency – including streamlining, simplifying, and reforming current programs.

As such, the Department's Budget for fiscal year 2013 follows the roadmap the President has laid out for jumpstarting our economy through educating, innovating, and building – by targeting our investments to the families and geographies that need them the most, and putting American back to work. Specifically, this Budget helps:

Give Hard-Working, Responsible Americans a Fair Shot. Not only is there more work to do to ensure that the economic security of middle class Americans does not continue to erode, we have a responsibility to directly address the challenges facing the most vulnerable Americans. This Budget does so by serving over 5.4 million families—the majority of whom are extremely low-income—in our rental assistance programs; and by supporting the Choice Neighborhoods initiative, which provides communities with the innovative tools they need to revitalize neighborhoods of concentrated poverty – efforts that helped communities leverage over $1.6 billion of private funding last year alone.

Ensure Every American Plays by the Same Rules. Put simply, we cannot settle for a country where a shrinking number of people do really well, while more Americans barely get by. There are still millions of Americans who have worked hard, acted responsibly, and made their mortgage payments on time – who, because their homes are worth less than they owe on their mortgage, can't take advantage of today's historically low interest rates and are facing real economic insecurity. In addition to steps taken by the Administration to combat predatory lending practices (discussed in depth below), this budget provides critical funding for the Housing Counseling program ($55 million), which will directly help over 185,000 low-to moderate-income families in improving access to quality affordable housing, expanding homeownership opportunities, and preserving homeownership through foreclosure mitigation; as well as providing training to over 4,800 counselors nationwide.

This Budget also recognizes that we can no longer tolerate a federally-supported rental housing system that is "separate and unequal" – one which expects public housing authorities (PHAs) to house over 3 million families, subjecting them to overly burdensome regulation while denying them access to private capital available to virtually every other form of rental housing. To bring our rental housing system into the 21st century and begin addressing the $26 billion in public housing capital needs, this Budget includes proposals that would increase PHA flexibility to fund critical supportive services for assisted families while also moving them toward mainstream real estate financing and management practices through the consolidation of outmoded funding streams. At the same time, by implementing the second year of our Rental Assistance Demonstration, the Budget will use existing resources to ensure that up to 60,000 units funded through our public housing and the so-called "orphan programs" can leverage debt to access private capital and preserve affordable housing.

Create New Jobs in America to Discourage Outsourcing. In addition to the hundreds of thousands of jobs that this budget creates both directly and indirectly, it makes an essential contribution to the Administration's broader effort to discourage outsourcing and encourage 'insourcing.' Specifically, attracting new businesses to our shores depends on urban, suburban and rural areas that feature more housing and transportation choices, homes that are near jobs, and transportation networks that move goods and people efficiently – which is why this budget restores funding for Sustainable Housing and Communities, which embodies the President's commitment to being a new kind of federal partner to regions, states, and localities as they tackle planning and economic development challenges for the 21st century.

Of course, smart planning requires sustained follow-through. That is why HUD is committed to ensuring that its core community and housing development work contributes to more and better transportation choices; promotes equitable, affordable housing; and aligns federal policies and funding to remove barriers to local collaboration. Accordingly, we will continue to make critical investments in programs such as the Community Development Block Grant and Native American Housing Block Grant. In particular, CDBG is an important catalyst for economic growth – helping leaders around the country bring retail businesses to their communities, forge innovative partnerships and rebuild their economies.

Reform Government So that it's Leaner, Smarter, More Transparent, and Ready for the 21st Century. It is clear that an economy built to last requires a federal government that is efficient, streamlined, and transparent. As such, the Budget proposes reforms to HUD rental assistance programs that would save over $500 million in fiscal year 2013 without reducing the number of families served – by streamlining programs and reforming policies. Moreover, this Budget once again calls for the flexible use of resources through the Transformation Initiative, which the Department needs to invest in technical assistance to build local capacity to safeguard and effectively invest taxpayer dollars; conduct innovative research, evaluations of program initiatives and demonstration programs so we can fund what works and stop funding what doesn't; and upgrade the IT infrastructure that tracks and monitors our programs.

Moving the Needle, Making Substantial Progress

In short, this Budget will achieve substantial results not only for vulnerable, low-income Americans but also for hard-hit local and state economies across the country. Its carefully targeted investments will enable HUD programs to serve millions of families in thousands of communities nationwide; to help create an economy built on American manufacturing, American energy, skills for American workers, and a renewal of American values.

Consistent with the previous two years, HUD's fiscal year 2013 Budget is structured around the five overarching goals the Department adopted in its Strategic Plan 2010-2015. These goals reflect the Department's—and my—commitment to 'moving the needle' on some of the most fundamental challenges facing America as we create an economy built to last. Indeed, every month, I hold *HUDStat* meetings on one or more of these goals, to assess progress and troubleshoot problems in order to: 1) ensure that HUD is as streamlined and effective as possible in the way that we administer our own programs and partner with other federal agencies; and 2) hold our grantees accountable for their expenditure of taxpayers' hard-earned dollars.

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

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

Responding to the Market Disruption

HUD remains firmly committed to working together with communities and individuals to cope with these unprecedented challenges. The Federal Housing Administration (FHA) and Government National Mortgage Association (GNMA) continue to have a significant impact on the nation's economic recovery. The activities of the Federal Government are critical to both supporting the housing market in the short term and providing access to homeownership opportunities over the long term, while minimizing the risk to taxpayers. FHA has stepped up to face these unprecedented challenges, playing an important countercyclical role in the housing market today.

In Fiscal year 2013, HUD is requesting $400 billion in loan guarantee authority for the Mutual Mortgage Insurance Fund, which will provide an estimated 0.8 million single-family mortgages (at a projected $149 billion in loan volume) and $25 billion in loan guarantee authority for the General and Special Risk Insurance Fund, which will provide an estimated 156,000 units in multifamily housing properties and an estimated 80,600 beds in healthcare facilities. The need for this investment is clear as FHA has played a critical role in stabilizing the nation's mortgage market. At a time when liquidity and access were needed most in the housing market to facilitate the recovery of the broader economy, FHA stepped in to ensure that mortgage capital continued to flow. However, FHA's expanded role is and should be temporary. FHA's loan volume has declined 34 percent from its peak in 2009, and its market share is decreasing for the first time since 2006, reflecting private capital's return to the market. FHA is particularly important to borrowers that the conventional market does not adequately serve, including qualified borrowers who would otherwise be shut out of the mortgage market. Fully 60 percent of all African American and Hispanic homebuyers using mortgages rely upon FHA financing and over 30 percent of all FHA-insured homebuyers are minorities. Over half of all African Americans who purchased a home last year and forty-five percent of Hispanics did so with FHA financing.

Redoubling Efforts to Keep Homeowners in their Homes

While there is work still to be done, HUD is proud of the progress this Administration has made in tackling ongoing foreclosure challenges. Between April 2009 and December 2011, more than 5.6 million mortgage modifications were started – including more than 1.7 million HAMP trial modification starts and nearly 1.2 million FHA loss mitigation and early delinquency interventions. In addition, to date, more than 930,000 HAMP trial modifications have resulted in permanent modifications – saving these households an estimated $10.5 billion in monthly mortgage payments.

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

- *Streamline Refinance* – An option that allows borrowers with FHA-insured loans who are current on their mortgage to refinance into a new FHA-insured loan at today's low interest rates without requiring additional underwriting, permitting these borrowers to reduce their mortgage payments. This program benefits current FHA borrowers – particularly those whose loan value may exceed the current value of their home – and by lowering a borrower's payment, also reduces risk to FHA. Effective on June 11, 2012, borrowers whose FHA insured loans were endorsed for insurance before June 1, 2009 will be able to refinance their current FHA insured mortgage at an annual mortgage insurance premium (MIP) of 0.55% and an upfront MIP of 0.01%. This will allow these borrowers to benefit from today's lower interest rates and lower their monthly payments. And, because we see potential for more widespread use of this product, FHA is making changes to the way in which streamline refinance loans are displayed in the Neighborhood Watch Early Warning System (Neighborhood Watch) to reduce lender concern about the potential impact associated with taking responsibility for loans they have not underwritten, making them more willing to offer these loans to borrowers who are current on mortgages already insured by FHA.

- *National First Look Program* – A partnership between HUD, the National Community Stabilization Trust and large financial institutions that offers Neighborhood Stabilization Program grantees an exclusive 12-14 day window to evaluate and bid on foreclosed properties.

- *Short Refinance Option* – In 2010, FHA made available an option that offers underwater non-FHA borrowers, who are current on their existing mortgage and whose lenders agree to write off at least 10 percent of the unpaid principal balance of the first mortgage, the opportunity to refinance into a new FHA-insured mortgage.

Finally, as another critical component to the recovery of the housing market, the President has also put forward a homeowners Bill of Rights – a single, straightforward set of commonsense rules that families can count on when they're shopping for a mortgage, including the right to a new, simple, clear form for new buyers that gives people confidence when they're making the most important financial decision of their lives. And those rights shouldn't end when homeowners get the keys to their new home. When Americans lose their job or have a medical emergency, they should know that when they call their lender, that call will be answered and that their home won't be sold in foreclosure at the same time they are filling out paperwork to get help.

Strengthening FHA and Paving the Way for Private Capital to Return

The books of business in the few years before 2009 have largely driven the high number of claims to the Mutual Mortgage Insurance Fund (MMI Fund). This was a result of overall economic and unemployment trends as well as by the combined effects of poor underwriting, unscrupulous and non-compliant practices on the part of lenders, and a seller-funded down payment assistance program that allowed many borrowers to obtain mortgages without a meaningful down payment. As a result, the books of business FHA insured prior to the start of this Administration have severely impacted the health of FHA's MMI Fund. But, while there is still a great deal of work to do, because of our efforts I believe that FHA continues to move in a more positive direction, and that the long term outlooks for FHA and the MMI Fund are better than they were in 2009.

The change in trajectory in the performance of FHA-insured loans is no accident. Immediately upon taking office, this Administration acted quickly and aggressively to protect FHA's MMI Fund and to ensure its long term viability. We have taken more steps since January 2009 to eliminate unnecessary credit risk and assure strong premium revenue flows in the future than any Administration in FHA history. Indeed, FHA's gains since 2009 are the result of a three-part strategy: systematic tightening of risk controls, increased premiums to stabilize near-term finances and expanded usage of loss mitigation workout assistance to avoid unnecessary claims.

And, we continue to take steps to further strengthen the Fund. In the 2013 Budget we announced a 10 bps annual premium increase on all FHA insured loans to comply with the requirement passed by Congress late last year, as well as an additional 25 bps annual premium increase on "jumbo" loans making the total increase for these larger loans 35 bps. And recently, we announced a series of premium changes that will further increase receipts to FHA by $1,480 million in fiscal years 2012 and 2013, beyond the receipts already included in the President's budget submission. In addition, we have also taken significant additional steps to increase accountability for FHA lenders. Via a final rule published recently, we clarified the bases upon which FHA will require indemnification from lenders participating in our Lender Insurance program, making clear the rules of the road for lenders and giving FHA a solid basis upon which to require indemnification by lenders for violations of FHA guidelines. And we continue to seek expanded authority via legislation that will further enable us to protect the MMI Fund from unnecessary and inappropriate losses associated with lenders who violate our requirements.

The next in a series of steps we have pursued to hold lenders accountable for their actions are the recently announced settlements with some of America's largest lenders. Through these settlements, FHA will receive over $900 million compensation for losses associated with loans originated outside of FHA requirements, or for which FHA's servicing requirements were violated.

Despite the unprecedented efforts of this Administration to alter the trajectory of FHA, considerable risks remain. The FHA MMI Fund has two components: the Financing Account, which holds enough money to accommodate all expected losses on FHA's insured MMI portfolio; and the Capital Reserve Account, which is required to hold an additional amount equal to 2 percent of the insurance in force. Since 2009, the Fund's capital reserve ratio has been below that 2 percent level.

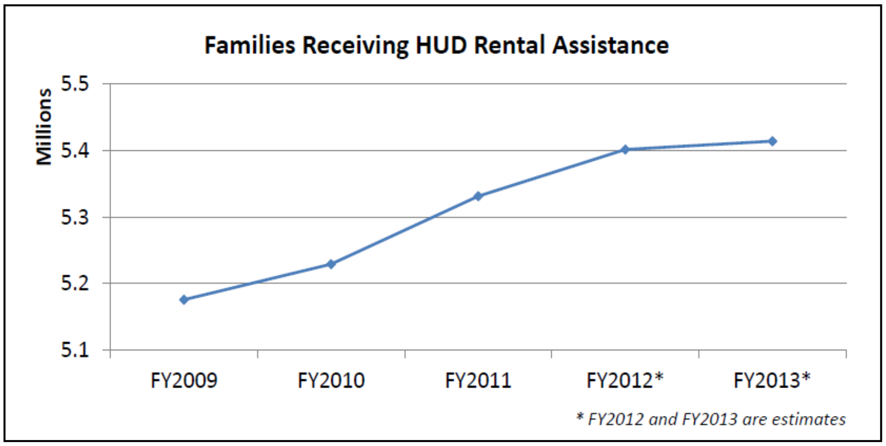
The President's Budget always includes estimates regarding the status of the Capital Reserve at the end of the current fiscal year. This prediction is based on estimates and projections of future economic conditions, including house prices and other economic factors which may or may not come to pass. The 2013 Budget estimate for the FHA Capital Reserve account did not include added revenue from the recently announced additional premium increases or the proceeds from FHA-approved lenders under the terms of the mortgage settlements. With these additional revenues accounted for, the Capital Reserve is estimated to have sufficient balances to cover all estimated losses without triggering a mandatory appropriation under the Federal Credit Reform Act. Moreover, the Budget estimates that FHA will add an additional $8 billion to the MMI Capital Reserve Account in 2013, and return to the congressionally mandated capital reserve ratio of 2 percent by 2015.

The 2013 Budget also includes premium increases for FHA's General Insurance and Special Risk Insurance programs that serve market rate multifamily properties and healthcare facilities. These changes are intended to ensure that FHA products are priced appropriately to compensate for FHA's risk and encourage the return of private capital to our mortgage markets. The proposed increases range from 5 basis points for 223(a)(7) refinancing to 20 basis points for 221(d)(4) new construction or rehabilitation activity. Premiums for affordable housing projects (such as those with HUD rental subsidies and low income housing tax credits, as well as those insured under FHA risk-sharing programs) will not be increased.

With the proposed premium increases, FHA Multifamily and Healthcare loans will be priced more appropriately to facilitate the return of private capital, while at the same time continuing to ensure sufficient levels of available capital in these sectors. The increase in premiums also reflect new realities – the Multifamily annual book of business is five times greater than it was just three years ago, and the risk profile has changed dramatically. FHA's multifamily apartment portfolio is now more than 50 percent market rate, which adds a new component of risk, and a need to take steps to ensure the future viability of the portfolio. With interest rates at a record low the existing portfolio loans could remain in FHA's portfolio longer than the average time frames and will need to be managed prudently. On April 10th, FHA published the proposed increased in the Federal Register for a 30 day comment period.

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

In an era when more than one-third of all American families rent their homes and nearly 7 million unassisted families with very low incomes spend more than 50 percent of their income on rent, it remains more important than ever to provide a sufficient supply of affordable rental homes for low-income families – particularly since, in many communities affordable rental housing does not exist without public support. HUD's fiscal year 2013 Budget maintains HUD's core commitments to providing rental assistance to some our country's most vulnerable households as well as distributing housing, infrastructure, and economic development funding to states and communities to address their unique needs. Overall, 83 percent of HUD's total FY2013 budget authority requested will provide rental assistance to over 5.4 million residents of HUD-subsidized housing, including public housing and HUD grants to homeless assistance programs. And, I am proud to say that, despite an era of challenging budgets, we have increased the number of families served through our rental assistance programs every year.



Detailed data shows how vulnerable these families are to the economic downturn. In HUD's core rental assistance programs, including TBRA, Public Housing and PBRA: 72% of families are extremely low-income (below 30 percent of area median income) and an additional 20 percent are very low-income (below 50 percent of area median income). The devastating effect of the tough economic environment on the housing circumstances of poor Americans was underscored last year, when HUD released its *Worst Case Housing Needs* study results. HUD defines worst case needs as: renters with very low incomes who do not receive government housing assistance and who either pay more than half their income for rent, live in severely inadequate conditions, or both. The report showed an increase of 20 percent in worst case needs renters between 2007 and 2009. This is the largest increase in worst case housing needs over a two year period in the quarter-century history of the survey, and caps an increase of 42 percent since 2001. The need for HUD investments in this area is clear.

Preserving Affordable Housing Opportunities in HUD's Largest Programs

This budget proposed a total of $19.07 billion for HUD's Section 8 Tenant-Based Rental Assistance (TBRA) program, which is the nation's largest and preeminent rental assistance program for low-income families. For over 35 years it has served as a cost-effective means for delivering safe and affordable housing in the private market. The proposed 2013 funding level is expected to assist approximately 2.2 million families by renewing existing vouchers and issuing new incremental vouchers to homeless veterans.

The Budget also provides a total of $6.6 billion to operate public housing and modernize its aging physical assets through the Public Housing Operating ($4.5 billion) and Capital ($2.07 billion) funds, a critical investment that will help 1.1 million extremely low- to low-income households obtain or retain housing. Similarly, through a $8.7 billion request in funding for the Project Based Rental Assistance (PBRA) program, the Department will provide rental assistance funding to privately-owned multifamily rental housing projects to serve over 1.2 million families nationwide. This PBRA request represents a $640 million decrease from the FY2012 enacted level, which is generated by providing less than 12 months of funding upfront on some PBRA contracts, and is not projected to reduce or delay payments to landlords or impact the number of families served by the program.

Nonetheless, this was a difficult choice, and not one that the Administration would choose to implement in a less austere fiscal environment, and I would note that the Appropriations Committee has chosen to increase the budget request for this program by more than $1 billion.

Reducing Administrative Burdens and Increasing Efficiency

The Budget recognizes the need to simplify, align, and reform programs to reduce administrative burdens and increase efficiency across programs. It also includes a menu of reforms to HUD rental assistance programs that save over $500 million in 2013 without reducing the number of families served:

- Streamlining the Public Housing Operating and Capital Funds
  To both simplify the program and reduce the administrative burden on State and local public housing authorities, the Budget proposes to combine the separate Operating and Capital funds into a single Public Housing subsidy stream. As a first step toward consolidation, the Budget provides all PHAs with full flexibility to use their operating and capital funds for any eligible capital or operating expense.

- Providing flexibility for PHAs to improve supportive services for assisted households
  The Budget proposes streamlining and flexibility measures to help PHAs improve supportive services for assisted families. The Family Self-Sufficiency (FSS) program will be consolidated and aligned to enable PHAs to more uniformly serve both TBRA and Public Housing residents. This program, which the Budget also expands to residents of PBRA housing, aims to connect residents to resources and services to find and retain jobs that lead to economic independence and self-sufficiency. In addition, the Budget authorizes PHAs to use a portion of their Public Housing and Housing Voucher funding to augment case management and supportive services provided through FSS or provide other supportive services to increase opportunities for residents.

- Aligning minimum rent policy across programs
  The Budget aligns policy across rental assistance programs and proposes to reduce costs by increasing the minimum rent to $75 per month for all HUD-assisted households, which is comparable to the minimum rent enacted in 1998, adjusted for inflation. This was a difficult choice, and one we would not have made under other budgetary circumstances. Recognizing the potential burden that this higher minimum rent may impose, the Budget proposes to maintain the current exemption for families facing financial hardship, and we are exploring ways of strengthening those provisions. In addition, the House Financial Services Committee is currently considering legislation that would make changes in existing requirements relating to both the hardship exemptions and the overall minimum rent requirements. We are reviewing those proposals, and we look forward to discussing that set of issues with the members of this committee should the committee consider similar legislation.

- Saving costs in Project Based Rental Assistance
  Within the PBRA program, cost savings measures include: improving the oversight of market rent studies used to set subsidy payment levels, capping annual subsidy increases for certain properties, and using excess reserves to offset HUD payments to landlords.

- Simplifying, aligning, and reducing administrative burdens
  This Budget request reduces costs by simplifying administration of the medical expense deduction, better targeting rental assistance to the working poor in rural areas, setting Public Housing flat rents closer to market levels, and changes mandatory PHA inspections of units from annually to every two years.

Many of these provisions are part of the Affordable Housing and Self-Sufficiency Improvement Act of 2012, which is under consideration by the House Financial Services Committee. The Department looks forward to working with the Banking Committee on this proposed legislation.

Rebuilding our Nation's Affordable Housing Stock

Over the last 75 years, the Federal Government has invested billions of dollars in the development and maintenance of public and multifamily housing, which serve as crucial resources for some of our country's most vulnerable families. Despite this sizable Federal investment and the great demand for deeply affordable rental housing, we continue to see a decline in the number of available affordable housing units. Over the last decade, the public housing stock has shrunk at a rate of 10,000 units per year, largely due to a growing backlog of unmet capital needs, estimated at $26 billion. To address these challenges, HUD's 2012 Appropriations Act authorized the Rental Assistance Demonstration (RAD) to test new preservation tools for its assisted housing stock allowing for Public Housing and Moderate Rehabilitation (Mod Rehab) properties to convert to long-term Section 8 rental assistance contracts (capped at 60,000 units of converted assistance); and Rent Supplement (Rent Supp), Rental Assistance Payment (RAP), and Mod Rehab properties, upon contract expiration or termination, to convert tenant protection vouchers to project-based vouchers. Unlike their current forms of assistance, these contracts offer a rental subsidy platform that allows PHAs and owners to leverage current Federal appropriations with other private and public capital to finance much needed rehabilitation and preserve the assets as affordable housing. A notice partially implementing RAD and seeking public comment was published in the Federal Register on March 9th.

RAD is a limited demonstration, which will be evaluated to assess the success of these approaches in preserving affordable housing. Since HUD will use funding appropriated for existing programs for implementation and anticipates strong interest in RAD, the 2013 Budget includes a request to exempt Mod Rehab from the 60,000 unit cap on projects that could convert assistance, at no cost, to long-term Section 8 rental assistance contracts. If enacted, the 60,000 unit cap would apply to public housing conversions alone, while the number of Mod Rehab conversions would not be constrained.

Funding What Works: *Jobs-Plus*

The Budget expands the Jobs-Plus demonstration to provide public housing residents with job search assistance and employment related services:

In FY2013, HUD is proposing that up to $50 million of Public Housing capital funds may be targeted to Jobs-Plus competitive grants to fund scaled-up implementation of the Jobs-Plus model – a successful, evidence-based strategy to increase the employment opportunities and earnings of public housing residents through a three-tiered program of employment services, rent-based work incentives, and community support for work. This investment will increase employment opportunities for over 30,000 Public Housing residents, by helping them secure and retain employment, keep more of the income they earn, and receive the full benefit of work incentives such as the Earned Income Tax Credit (EITC). A randomized experiment evaluation of the Jobs-Plus model in three demographically diverse sites found that, on average, participants had an additional $1,300 in earnings every year from 2000 to 2006 – and these earning increases were durable beyond the period of the intervention. Jobs-Plus competitive grants will scale up this proven model by targeting resources to high-capacity PHAs and housing developments with enough work-eligible residents to achieve economies of scale. The grants will prioritize broad and diverse local partnerships that cut across sectors, agencies, and funding streams.

Increasing the Production of Affordable Housing Capital Projects

In addition to developing tools to address the growing capital needs of America's Public Housing stock, HUD is committed to expanding the supply of affordable rental homes in safe, mixed-income communities that provide access to jobs, good schools, transportation, and, most importantly, economic self-sufficiency. Accordingly, in February 2012, FHA announced a pilot program to accelerate processing of LIHTC deals. And, in fiscal year 2013 HUD is working together with its partners to identify ways to make the Low Income Housing Tax Credit (LIHTC) program a more flexible and nimble tool for the creation and preservation of affordable housing. As the primary tool of the Federal Government for developing and rehabilitating affordable rental housing, the LIHTC program is administered by State agencies with the assistance and guidance from the Treasury Department and the

Internal Revenue Service. The program attracts capital to low-income rental housing by satisfying some of the Federal income tax obligations of investors in certain low-income rental properties.

Since its addition to the tax laws in 1986, the LIHTC program has been used to create 1.8 million in affordable rental-housing units across the country. Annually, the program supports 95,000 jobs and has generated $2.7 billion in State, local, and Federal revenues. In fiscal year 2013, as part of a broader effort to align Federal rental programs, HUD, the Departments of Treasury and Agriculture, the Domestic Policy Council (DPC), the Office of Management and Budget (OMB), and the National Economic Council (NEC) will continue partnering to allow greater flexibility to State and local agencies that administer LIHTC programs, as well as to developers and investors, to continue to enable the creation of affordable housing in markets where it is needed the most. Specifically, the revenue provisions of the 2013 Budget enhance two revenue proposals that were included in the 2012 Budget and introduce two new proposals:

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

- In the context of preserving, recapitalizing, and rehabilitating existing federally assisted affordable housing, a *Basis Boost* proposal would provide a second mechanism for earning "4 percent" LIHTCs and would give an extra, up–to-30-percent increase in qualified basis for certain projects that receive "4 percent" LIHTCs, either because they are at least half financed with tax exempt-bonds or because they employed the new mechanism.

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

- *A Victims of Domestic Violence* proposal would bar LIHTC buildings from discriminating against victims of actual or threatened domestic violence and would clarify that occupancy restrictions or preferences for such victims are an allowable exception to the general-public-use requirement.

Finally, the recent Worst Case Housing Needs report underscores what has been the case since well before the recent recession, namely, that extremely low-income renters face the most severe housing shortage and cost burden of any Americans. In addition to the Worst Case Housing Needs report, the most recent data available from the American Housing Survey shows that, for renters below 50 percent of area mean income, the shortage of affordable and available units increased from 5.2 to 6 million from 2007 to 2009, with just 39 affordable and available units for every 100 renters in 2009, compared to 44 two years prior. The 2013 Budget once again provides $1 billion in mandatory appropriations for the Housing Trust Fund (HTF) to address this critical shortage of housing where it is most desperately needed. Enacted in 2008, the HTF was designed to provide capital resources to build and rehabilitate housing to fill this precise – and growing – gap in the nation's rental housing market. The time has come for Congress to provide this crucial funding.

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

Stable housing provides an ideal platform for delivering a wide variety of health and social services to improve economic, health, and broad-based societal outcomes. For some, housing alone is sufficient to ensure healthy outcomes, while others require housing with supportive services to assist with activities of daily living or long-term self-sufficiency, as well as proximity to crucial services. HUD's fiscal year 2013 Budget acknowledges this reality by making critical investments in housing and supportive services, and partnering with other federal agencies to maximize resources and best practices. Moreover, these investments will save money in the long term, by avoiding overuse of expensive emergency and institutional interventions.

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

Nowhere is the relationship between housing and supportive services clearer than in the successful efforts in communities around the country to address homelessness. These efforts have yielded a substantial body of research, which demonstrates that providing permanent supportive housing to chronically ill, chronically homeless individuals and families not only ends their homelessness, but also yields substantial cost saving in public health, criminal justice, and other systems. This year's Budget once again invests in this critical effort, by calling for $2.23 billion in Homeless Assistance Grants, including competitive programs that annually serve over 800,000 homeless families and individuals. This includes funding for the Emergency Solutions Grants program, which will continue the work of the Homelessness Prevention and Rapid Re-Housing Program – funded by the Recovery Act – that in the last three years alone has helped prevent or end homelessness for over 1.2 million people nationwide.

Moreover, HUD continues to focus on the unique needs of veterans through both its targeted homeless programs and its mainstream housing programs using successful methods and interventions. Currently, an estimated one out of every six men and women in our nation's homeless shelters are veterans, and veterans are 50 percent more likely to fall into homelessness compared to other Americans. HUD is committed to providing affordable housing units to this unique homeless population, and has partnered with the Departments of Health and Human Services (HHS) and Veterans Affairs (VA) to develop targeted approaches to serve the homeless veteran populations. Accordingly, this Budget includes $75 million for the HUD-VASH program, which combines tenant-based voucher assistance with case management and clinical services tailored to veterans and their families. This funding will provide 10,000 new vouchers to help veterans move from our streets into permanent supportive housing, in addition to the nearly 38,000 already allocated HUD-VASH vouchers provided in previous appropriations, which have been critical to a twelve percent reduction in veterans homelessness, and the 10,000 vouchers that will be awarded through the FY2012 appropriation.

Increasing Efficiencies:

The Budget modernizes the Housing Opportunities for Persons with AIDS (HOPWA) Program to better reflect the current understanding of HIV/AIDS and ensure that funds are directed in a more equitable and effective manner, including…

- A new formula that will distribute HOPWA funds based on the current population of HIV-positive individuals, fair market rents, and poverty rates in order to target funds to areas with the most need.
- The Budget also makes the HOPWA program more flexible, giving local communities more options to provide timely and cost-effective interventions. The Budget's $330 million investment in HOPWA, in combination with the proposed modernization, will assist local communities in keeping individuals with HIV/AIDS housed, making it easier for them to stay in therapy, and therefore improving health outcomes for this vulnerable population.

Investing in Leveraging and Serving our Most Vulnerable

This budget proposed a total of $625 million for the Housing for the Elderly and Housing for Persons with Disabilities programs, which includes $154 million to support 5,300 additional supportive housing units. Doing more with less, the Budget proposes reforms to the Housing for the Elderly program to target resources to help those most in need, reduce the up-front cost of new awards, and better connect residents with the supportive services they need to age in place and live independently.

Historically, HUD has provided both capital advances and operating subsidies to non-profit sponsors to construct and manage multifamily housing for low-income people with disabilities. In an effort to maximize the creation of new affordable units in a time of funding restraints, in fiscal year 2012 HUD began providing operating assistance to state housing agencies that formed partnerships with state health care agencies for service provision to low-income persons with disabilities. These funds are used to set aside supportive units for this target population in affordable housing complexes whose capital costs are funded through Low-Income Housing Tax Credits, HOME funds, or other sources. Investing Section 811 funds under this authority allows HUD to rely on the expertise of the State housing agencies to administer the award and on the State health care agency to identify the most critical population to be served and guarantee the delivery of appropriate services. In fiscal year 2013, HUD is requesting similar authority for the Section 202 program. Drawing on lessons learned from implementation in the Section 811 program, HUD will take advantage of efficiencies inherent in these same agencies' oversight responsibilities for tax credits, HOME funds or similar housing funding. Assuming requested statutory language is enacted, up to 3,450 units could be made available with support from this project rental assistance.

Goal 4: Build Inclusive Sustainable Communities Free from Discrimination

No longer can the American economy tolerate the marginalization from the labor force of significant numbers of people because of individualized or systemic discrimination, or because they live in isolated neighborhoods of concentrated poverty. An American economy built to last requires an increased supply of affordable rental homes in safe, mixed-income communities that provide access to jobs, good schools, transportation, high-quality services, and, most importantly, economic self-sufficiency. As such, HUD's fiscal year 2013 Budget puts communities in a position to plan for the future and draw fully upon their resources, most importantly their people.

Each year HUD dedicates approximately 15-20 percent of its funds to the capital costs of housing and economic development projects throughout the country. Through this investment, HUD and its partners are able to provide better opportunities for people living in neighborhoods of concentrated poverty and segregation, and offer choices that help families live closer to jobs and schools. Programs such as the Community Development Block Grant (CDBG), and Choice Neighborhoods are targeted to areas of need, to provide locally driven solutions to overarching economic development challenges. As with HUD's rental assistance programs, HUD's capital grants—including the Public Housing Capital Fund, Choice Neighborhoods, CDBG, and HOME—tend to assist areas of great need, including communities with high unemployment.

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

The Budget demonstrates the Administration's continued commitment in a constrained fiscal climate to support municipalities and States as they navigate through a challenging fiscal climate. Maintaining the fiscal year 2012 CDBG formula funding level of $2.95 billion, would allow over 1,100 State and local governments to improve living conditions in low- and moderate-income neighborhoods across the country. As the Federal Government's primary community development program, CDBG serves as the backbone of state and local community and economic development efforts. In fiscal year 2011 alone, local governments used CDBG funding to directly create and retain 21,482 jobs, not including any indirect effect on additional jobs. Moreover, in fiscal year 2011 CDBG assisted 96,615 households to maintain or gain access to safe, affordable housing; provided public service activities to 10.1 million people; and benefited approximately 4.1 million persons through public improvement investments. CDBG funding is increasingly one of the few resources available at the local level to support housing rehabilitation, public improvements and economic development – despite growing needs, local governments have often had no choice but to eliminate some of these activities from their own budgets.

The Budget also reflects the difficult choices HUD was faced with, in order to make real progress in reducing the national deficit and contribute to creating an economy built to last, by maintaining the fiscal year 2012 HOME funding level of $1 billion – over $600 million lower than the fiscal year 2011 funding level. The HOME Investment Partnerships program is the principal tool for the production of affordable housing for low- and extremely-low income families by state and local governments. It is also the critical gap financing for LIHTC projects – it has created over one million units and an additional 250,000 households have been assisted with temporary rental assistance since the program's inception. The program leverages $4 in other public and private funds for every HOME dollar invested, totaling more than $88 billion over the life of the program.

Increasing Efficiencies and Undertaking Critical Reforms

The Budget includes two proposed changes to the HOME Investment Partnerships, including:

- Permitting recaptured Community Housing Development Organizations set-aside funds to be reallocated by formula as HOME funds.
- Facilitating the removal of dangerous tenants from HOME properties.

HUD issued a proposed rule on December 16, 2011 outlining changes to the HOME program to enhance performance and accountability. The public comment period closed on February 14, 2012. HUD is currently reviewing over 322 comments and expects to issue the final rule this summer. Additionally, HUD has undertaken a number of changes to the Integrated Disbursement and Information System (IDIS) to enhance accountability through exception reporting, system edits, and new narrative reporting requirements for certain projects. The first phase of improvements will be made by April 30, 2012, including system triggers for projects that are significantly delayed, including projects with infrequent draws (no draws in 12 months), and projects in final draw status for more than 120 days. The second phase of improvements will be completed by December 31, 2012.

Transforming Neighborhoods of Poverty

The President has made it clear that we cannot create an economy built to last if: a fifth of America's children live in poverty, at a cost of $500 billion per year—fully 4% of GDP—due to reduced skills development and economic productivity, increased later life crime, and poor health; a growing population lives with the problems of concentrated neighborhood poverty—high unemployment rates, rampant crime, health disparities, inadequate early care and education, struggling schools, and disinvestment—all of which isolate them from the global economy.

That's why HUD's fiscal year 2013 Budget recommended $150 million for the Choice Neighborhoods Initiative to continue transformative investments in high-poverty neighborhoods where distressed HUD-assisted public and privately owned housing is located. This will reach four to six neighborhoods with implementation grants that primarily fund the preservation, rehabilitation and transformation of HUD-assisted public and privately-owned multifamily housing, and will also engage local governments, nonprofits, and for-profit developers in partnerships to improve the economic conditions in their surrounding communities. Moreover, the leveraging power that these grants have is real – to date, the five Choice Neighborhoods implementation grantees have leveraged a combined $1.6 billion in private funds – over 13 times their total grant award amount.

The Choice Neighborhoods initiative is a central element of the Administration's inter-agency, place-based strategy to support local communities in developing the tools they need to revitalize neighborhoods of concentrated poverty into neighborhoods of opportunity. The Department's administration of the first rounds of funding for Choice Neighborhoods grants exemplify how our practices generate effective partnerships with local housing and community development efforts. In the past, many federal grant programs followed a rigid, top-down, 'one-size fits all' approach that dictated what local policymakers could and could not do rather than listening to them and providing the tools they needed to meet local needs. Having served in local government myself, I am committed to a collaborative approach responsive to local needs – and believe the results thus far demonstrate that we are making good on that commitment.

Supporting Sustainable Communities and Innovative Infrastructure Planning

Creating an economy built to last requires creating jobs here in America to discourage outsourcing and encourage 'insourcing.' But attracting new businesses to our shores depends on urban, suburban and rural areas that feature more housing and transportation choices, homes that are near jobs, transportation networks that move goods and people efficiently, all while lowering the cost and health burdens on families, businesses and the taxpayer. Unfortunately, today, congestion on our roads is costing us five times as much wasted fuel and time as it did 25 years ago, and Americans spend 52 cents of every dollar they earn on housing and transportation combined.

With these realities in mind, the fiscal year 2013 Budget supports the multi-agency Partnership for Sustainable Communities, an Administration initiative that integrates resources and expertise from HUD, the Department of Transportation, and the Environmental Protection Agency. In particular, the Budget restores funding for the Sustainable Communities Initiative, which creates incentives for communities to develop comprehensive housing and transportation plans to achieve sustainable development, reduce energy consumption and greenhouse gas emissions, and increase affordable housing near public transit. This includes $46 million to fund about 20 additional regional planning grants to help enable communities to align public and private investments in housing, transportation, and infrastructure to strategically integrate goals for mobility, regional housing choices and economic development. In addition, $46 million would be invested in neighborhoods and communities to update building codes, zoning, and local planning efforts as complementary strategies to the regional grants.

We know how important these planning tools are to regional economies – particularly those which rely on integrated supply chains that cross national borders and are essential to meeting the President's charge to double U.S. exports over the next five years. These investments will also leverage and increase the ripple effects of other Administration proposals to overhaul America's deteriorating infrastructure,, including Project Rebuild and other elements of the American Jobs Act, as we leverage increased residential and commercial construction around transit and other infrastructure investments. I would note in this connection that Senator Reed has introduced legislation (S. 1126) to formally establish Project Rebuild, and I am hopeful that the Committee will give it serious consideration.

An Economy Built to Last: Project Rebuild

The Budget includes $15 billion in funding for Project Rebuild, as initially laid out in the American Jobs Act

By expanding on the strong foundation created by the Neighborhood Stabilization Program (NSP), Project Rebuild adds eligibility for commercial redevelopment to balance the needs for usage of vacant commercial structures in neighborhoods; and allows private development companies to put their expertise to work. Many NSP grantees have demonstrated results, but require additional funding to address challenging market conditions. With this critical funding, we can continue to put Americans back to work, while also stabilizing the housing market for the long term.

Ensuring Inclusivity in Housing Nationwide

An inclusive community is one in which all people—regardless of race, ethnicity, religion, sex, disability, or familial status—have equal access to housing and economic opportunities. Throughout its portfolio of programs, HUD is committed to maintaining that inclusivity and providing accountability in housing and lending practices nationwide. Through inclusive development, education, enforcement of fair housing laws, expanded training and language assistance, HUD will affirmatively further fair housing and the ideals of an open society.

The Fair Housing Initiatives Program (FHIP) is critical to building and sustaining inclusive communities. FHIP is the only grant program within the federal government whose primary purpose support private efforts to educate the public about fair housing rights and conduct private enforcement of the Fair Housing Act. In Fiscal year 2013, HUD is requesting approximately $41 million in FHIP funds, representing the Department's commitment to fair housing, including $28 million to support the efforts of private fair housing organizations that conduct private enforcement of the Fair Housing Act. The Private Enforcement Initiative (PEI) grantees investigate and test housing providers alleged to have engaged in discrimination. The requested amount will continue funding to support fair housing enforcement by all statutorily eligible private fair housing organizations. In addition it will fund fair housing education at the local, regional and national levels.

The Fair Housing Assistance Program (FHAP) is a critical component of HUD's effort to ensure the public's right to housing free from discrimination. FHAP multiplies HUD's enforcement capabilities, allowing the Department to protect fair housing rights in an efficient and effective manner. In fact, FHAP agencies investigate the majority of housing discrimination complaints filed in the United States. FHAP provides funding for 98 government agencies, including 37 states, 60 localities, and the District of Columbia, to enforce laws that prohibit housing discrimination that have been reviewed and deemed substantially equivalent to Federal law. In Fiscal year 2013, HUD is requesting approximately $25 million in FHAP funds.

Ensuring that an Economy Built to Last Includes Opportunities for Rural Americans

The Administration has placed a significant emphasis on ensuring that America's rural communities are competitive in the global economy – particularly given the reality that rural communities generally have less access to public transportation, along with higher poverty rates and inadequate housing. Each year, HUD invests billions of dollars in rural communities through its core rental assistance programs and block grants. The Community Development Block Grant (CDBG) program allocates funds to states, which provides approximately $692 million to rural areas, supporting over 25,000 jobs both directly and indirectly, providing needed infrastructure, economic development, and affordable housing. Because small towns and rural areas often lack the basic modern infrastructure that citizens in larger communities can take for granted, states annually spend over 55% of their CDBG funds on basic public improvements such as water and sewer lines, paved streets and fire stations. HUD also funds over $300 million in rural areas for affordable housing and homeownership programs through its HOME Investment Partnerships program, directly and indirectly supporting over 5,360 jobs.

In addition, HUD and the Department of Agriculture meet regularly through an interagency rental housing policy group to better align and coordinate the affordable rental housing programs each operates. Altogether, over 800,000 families in rural communities are directly assisted through the Housing Choice Voucher, Public Housing, and Multifamily programs, with another 450,000 assisted through USDA. For homeowners, HUD's Federal Housing Administration (FHA) helps first-time homebuyers and other qualified families all over the country purchase their own home. More than 1.5 million of the homes currently insured by the FHA are in rural areas, and approximately $545 million in current FHA loans are to rural healthcare facilities designated as "critical access hospitals." We thank the appropriations committee, for including language in the FY 2013 bill, based on legislation introduced by Sen. Kohl and cosponsored by other members of this committee, to allow FHA to provide financing for these facilities. In addition to these critical investments, targeted rural investments in HUD's 2013 Budget include:

- $5 million in Rural Housing Stability Assistance Program (RHSP), as authorized in the HEARTH Act, designed to assist individuals and families who are homeless, in imminent danger of losing housing, or in the worst housing situations in rural communities. In addition, rural communities choosing to not apply for RHSP funding will continue to have access to HUD's targeted homeless assistance, through the Continuum of Care competition grant, in addition to the Emergency Solutions Grant (ESG) program, and the Homelessness Prevention and Rapid Re-Housing Program (HPRP). Rural areas have increasingly gained access to HUD's competitive homeless assistance grants, primarily through the creation of Balance of State and Statewide Continuums of Care, with funds allocated directly to the state. In 2011, the Continuum of Care competition included a selection priority for new projects proposing to serve 100% rural areas. HUD recently awarded $15.7 million to 103 rural projects through the CoC competition.

- $731 million to fund programs that will support housing and development initiatives in American Indian, Alaska Native, and Native Hawaiian communities. As the single largest sources of funding for housing Indian tribal lands today, programs like Indian Housing Block Grants, Indian Home Loan Guarantees, and Indian Community Development Block Grants support development in remote areas where safe, decent, affordable housing is desperately needed by providing funds to over 550 Tribes across the country. HUD also directly supports housing and economic development initiatives in remote areas of Hawaii, through the Native Hawaiian Housing Block Grant Program and Native Hawaiian Loan Guarantee Program.

Goal 5: Transform the Way HUD Does Business

An economy built to last requires a government that's leaner, smarter, more transparent, and ready for the 21st century. The current economic and housing crisis; the structural affordability challenges facing low-income homeowners and renters; and the new, multidimensional challenges facing our urban, suburban, and rural communities all require an agency in which the fundamentals matter and the basics function. As such, HUD remains committed to transforming the way it does business. This transformation is more crucial now than perhaps ever before – HUD remains at the forefront of the Federal response to the national mortgage crisis, the economic recovery, and the structural gap between household incomes and national housing prices – roles that require an agency that is nimble and market-savvy, with the capacity and expertise necessary to galvanize HUD's vast network of partners. HUD's 2013 Budget reflects these critical roles, by investing in transformation, research, and development that will be implemented persistently over time.

The Transformation Initiative

Thanks to Congressional support for TI, past fiscal year appropriations are today funding a wide range of groundbreaking projects, including:

- Innovative, 'silo-breaking' One CPD technical assistance in communities across the country that replaces a fragmented broken system with one that addresses the holistic and cross-cutting needs of our grantees, recognizing that these extend beyond the rules and regulations of any single funding stream;
- Major evaluations and demonstration programs to examine the outcomes of key Administration initiatives like the Rental Assistance Demonstration and Choice Neighborhoods, the cost to local public housing authorities of administering the Housing Choice Voucher program, different approaches to rent reform in our largest programs, the housing needs of Native American and Hawaiian communities, and the impact of housing and services interventions on homeless families;
- Replacement of 30-year-old technology and information management practices to reduce risks, and implement higher performing, and cost effective business solutions to more effectively administer the Department's rental housing assistance programs.

The 2013 Budget request once again includes transfer authority (up to 0.5 percent at the Secretary's discretion) to support ongoing improvements of program effectiveness and efficiency and to help the Department respond and adapt more effectively to its rapidly changing operating environment.[1] TI is a multiyear effort that can only be achieved through the relentless focus of agency leadership, full transparency and accountability for real results, and sustained and flexible budget resources. Since TI was first enacted in 2010, it has bolstered the long-neglected areas of IT modernization, research and evaluation, and program demonstrations crucial for increasing the efficiency and effectiveness of the Department's programs, and remains the primary source of funding for this transformation. Further, TI has provided a mechanism for innovative, crosscutting technical assistance that goes beyond program compliance to improve grantee capacity, performance and outcomes. Finally, recent crises with natural disasters, the housing market, and deep fiscal distress among state and local partners have highlighted the need for HUD to be more nimble, creative and collaborative. Setting aside a portion of HUD's program accounts through TI to better understand and enhance program results reflects recognition that planning for continuous improvement and innovation, investing in tools and capacity, and assessing results are equally integral for the operation of programs with accountability to the public interest.

Research and Evaluations

As an integral component of strengthening HUD's capabilities for evaluating and improving program effectiveness and efficiency, TI provides a predictable stream of funding for high quality research and evaluation of HUD's programs on an on-going, rotating basis to inform sound policymaking. HUD anticipates allocating 10-20 percent of TI transfers to Research and Evaluations in 2013. Expected projects include: a process evaluation of the evidence-based Jobs-Plus pilot, seeking to understand the effects of larger scale implementation; energy

[1] In the 2013 Budget, HUD estimates that it will transfer $120 million to the TI Fund using this transfer authority.

efficiency and utility costs analysis for PHAs and residents of public housing; biennial research NOFAs for Sustainable Communities Research Grants to inform local governments in preparing and planning for disasters; and a long-overdue follow-up to a 1995 HOME Affordability Study to assess affordability over time based on differing levels of subsidy.

Program Demonstrations

Program Demonstrations test new options for HUD programs that can make them more efficient and effective and establish sound evidence of whether and how these options could better achieve HUD's mission. Since the 1990s, HUD has done relatively few research demonstrations, largely due to budget constraints. Those few demonstrations, however, have been HUD's most important and informative research on real program impacts. In 2013, HUD expects Project Demonstrations to include research on the *Rental Assistance Demonstration (RAD)*, which allows a trial conversion of public housing and certain multifamily properties to long-term project-based contracts.

Technical Assistance

Technical assistance (TA) can be seen as a "force multiplier" – making program dollars go further and helping communities do more with limited Federal and local resources. TA under the Transformation Initiative (TI-TA) allows HUD to combine assistance for different programs as appropriate, and provide customized help on the issues any particular grantee confronts.

In 2013, HUD will utilize TI-TA for activities such as: assessments and targeted interventions for PHAs; helping local government comprehensively assess market trends and implement housing and community and economic development programs through OneCPD; and targeting underlying, long-term problems like deficits and poor bond ratings through the National Resource Network. Flexible, cross-program technical assistance could also help grantees and clients adapt to new HUD policies, programs, and management approaches, and develop core skills and critical competencies required to effectively deliver HUD's programs.

Information Technology

The Budget proposes to again use TI funds for Information Technology in 2013, to reduce risks, implement higher performing standards, and cost effective business solutions.

IT transformation efforts to date have helped HUD evolve its understanding of opportunities to leverage the foundational toolsets being implemented under the FHA Transformation, the Next Generation Management project or NGMS (formerly known as NGVMS), and related infrastructure modernization projects. These opportunities include ways to further reduce the government's risk in the marketplace, improve services to meet the needs of our citizens and employees and reduce annual operations costs. For example, recent efforts to define opportunities to reduce cost by consolidating back office business and administrative services are expected to lead to the need for capital investment to transition more of HUD's services from legacy platforms to shared enterprise services. HUD plans to use TI transfer authority in 2013 to make capital investments in IT to drive these service delivery improvements and further cost reduction efforts.

Conclusion

Chairman Johnson, this Budget reflects the Administration's recognition of the critical role the housing sector must play to ensure every American gets a fair shot, everyone does their fair share, and everyone plays by the same rules. Equally important, it expresses the confidence of the President in the capacity of HUD to meet a high standard of performance.

Given the economic moment we are in, HUD's 2013 Budget proposal isn't about spending more in America's communities – it's about investing smarter and more effectively.

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

I believe that this Budget will contribute substantially to economic recovery, to creating pathways to opportunity, and to an America built to last. Thank you.