

**Statement of Orlando J. Cabrera
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**Before the Committee on Banking, Housing and Urban Affairs
United States Senate**



**"Two Years After the Storm: Housing Needs
in the Gulf Coast"**

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Chairman Dodd, Ranking Member Shelby, distinguished Members of the Senate Banking Committee, it is a privilege to appear before you today on behalf of the Department of Housing and Urban Development (HUD). We appreciate Congress' continued support and attention to Gulf Coast recovery, as reflected in H.R. 1227 and S. 1668. Although HUD shares the goals of both bills in seeking to help the victims displaced by the hurricanes and rebuilding, we have serious concerns with many of the provisions in their current form. In response, the Administration will communicate detailed concerns separately, and we look forward to working with both the House and Senate to address the ongoing needs of families affected by the hurricanes.

Today, I share with you HUD's recovery efforts in the Gulf Coast following the devastation caused by the trio of hurricanes that battered the region two years ago. We have taken great strides in the recovery effort; yet, there are still many challenges that lie ahead, especially in Louisiana. This testimony focuses on three things:

1. The \$16.7 billion in Community Development Block Grant (CDBG) supplemental funds for long-term recovery;
2. The recovery of New Orleans Public Housing; and
3. Continuing affordable rental housing challenges.

In response to the disasters, the federal government has committed more than \$110 billion to help the Gulf Coast, including \$16.7 billion for the CDBG program. The legislation passed by Congress for the CDBG program was clear in its intent: the federal government would not dictate to local communities how they were going to use the money in their recovery efforts. The Gulf states and their governors were designated with the principal responsibility for the design, implementation, and performance of their rebuilding efforts. HUD has and will continue to move quickly with reviewing and approving state recovery plans. HUD has received and approved \$15.23 billion worth of recovery plans from the affected states. HUD has and will continue its role in offering guidance and assure compliance with the law, including the prevention of waste, fraud, and abuse.

Recovery is taking time but the pace has been picking up. In January 2007, a little over \$1.1 billion had been expended by the states. Today, over \$5.8 billion of the CDBG funds have been expended. Louisiana has made substantial progress in its Road Home homeowner grant assistance program. The state established a July 31, 2007, application deadline for its homeowner program. The state has received over 184,000 applications and has dispersed grant assistance of almost \$4 billion to over 52,000 homeowners.

In Mississippi, its Homeowner Assistance Program has assisted over 14,000 homeowners who have received checks to help compensate them for their losses and assist them as they rebuild their lives. All of the five Gulf states have other critical programs underway, including infrastructure repair and redevelopment, economic development assistance, and rental and public housing programs.

I will now address recovery issues for New Orleans Public Housing. As Secretary Jackson said when he visited New Orleans, “every family who wants to come home should have the opportunity to come back... HUD’s goal is to bring families back to quality housing.” HUD is working with the local community to redevelop New Orleans public housing so families will have the opportunity to return to better, safer neighborhoods. The Housing Authority of New Orleans (HANO) has selected development teams to redevelop four major public housing sites, including C.J. Peete, B.W. Cooper, Lafitte and St. Bernard. These sites will be redeveloped to make way for a mixture of public housing, affordable rental housing and single-family homeownership. Low Income Housing Tax Credits and CDBG Piggyback funds have been awarded to these projects by the State of Louisiana. Of the approximately 5,100 units of public housing that were occupied and affected by the disaster, more than 2,000 units have been repaired and are habitable. Over 1,600 families have already come back to New Orleans to re-occupy these units and additional families will be returning. As Louisiana and the other affected states develop their solutions to the challenges they face in public housing, HUD will continue to offer its support and guidance.

Our efforts to provide rental housing assistance to displaced families and individuals are well documented. The Office of Public and Indian Housing (PIH) issued guidance to the nation’s more than 3,000 Public Housing Authorities (PHAs) on how to assist public housing residents displaced by Hurricane Katrina.

HUD has worked aggressively to provide previously HUD-assisted displaced families and homeless individuals with housing stability during this period by paying Katrina Disaster Housing Assistance Program (KDHAP) and Disaster Voucher Program (DVP) rental subsidies. Through the KDHAP and DVP, HUD issued over 37,000 DVP vouchers and assisted approximately 32,000 families to find and occupy affordable rental units. All rental assistance programs have been operating successfully and are fiscally sound. Both HUD’s Office of Inspector General and the Government Accountability Office have audited HUD’s performance and commended the Department on its ability to deliver timely services.

As pre-disaster HUD-assisted housing units damaged by Hurricanes Katrina and Rita become available, the Department remains fully committed to providing displaced families the opportunity to reoccupy their pre-disaster HUD-assisted housing. In 2007, HUD has convened several meetings in New Orleans, Gulfport, and Houston with representatives of the major stakeholders, including public housing residents, pre-disaster and DVP PHAs, tenant advocacy groups, and owners of Section 8 voucher units. The purpose of these meetings was to solicit feedback on the best strategy for returning families to their homes prior to issuing the “final” HUD re-occupancy policies for families displaced by Hurricanes Katrina and Rita as well as implementing the Disaster Housing Assistance Program.

DHAP will allow the 21,896 families that were displaced by Hurricanes Katrina and Rita and are currently being served by FEMA’s rental assistance program to be transferred to HUD. Based on the recommendations presented in “Hurricane Katrina: Lessons

Learned,” the Administration agreed that FEMA should not be in the long-term housing business. Because HUD has a proven process in place and is the nation’s housing expert, it was determined that HUD should continue to serve these individuals. This will total 53,896 families assisted through rent subsidies under the KDHAP, DVP and DHAP programs. Final DHAP operating procedures were issued in August 2007. HUD currently has a team of over 14 program staff at the Housing Authority of New Orleans (HANO) working alongside HANO staff in attempting to contact Hurricanes Katrina and Rita families and make arrangements for their return. HUD is also in the process of issuing public service announcements and working with nonprofit agencies in the Gulf Region and other areas to locate these families and help them return home.

While New Orleans public housing is an important and visible piece of providing affordable rental housing in the region, it represents only a small number of the 112,000 rental units seriously damaged by the storms in the five-state Gulf Coast region. In total, 13 percent of the damaged rental stock in the Gulf region was subsidized housing. Although mostly unsubsidized, 75 percent of the damaged stock was occupied by low-income households.

A weak pre-storm housing market in the Gulf Coast resulted in a relatively affordable housing stock. The affordable homes, half of them in New Orleans, were not high-end properties. Many were built in the 1950s or earlier and had numerous quality problems. While families would in certain cases “double-up” or have extended family reside with them, nonetheless, there was moderately affordable shelter.

That situation has changed dramatically since the storms. Not only are there 112,000 fewer rental units in the Gulf Coast region, there is increased demand for the non-damaged rental units. This demand comes in the form of construction workers moving to the area to accelerate recovery, from displaced high- and low-income renters, and also from higher-income homeowners who are temporarily renting units in the area while their houses are repaired. Some of this demand is likely to be short-term, but in the meantime it quickly increased rents. In response to the rent inflation, HUD has increased its Fair Market Rents for New Orleans by 45 percent since the storms. Increasing Fair Market Rents, however, does not address the near disappearance of affordable rental units.

Immediately in the aftermath of Hurricane Katrina, the Department’s goal was to repair, rehabilitate or rebuild the affordable housing projects to the greatest extent possible to ensure that residents could return as quickly as possible to the Gulf Coast region. The Department began diligently working with project owners to develop recovery plans and identify the resources needed to make the repairs and complete the rehabilitation or rebuilding of these projects. Through these efforts, 96% of the Department's portfolio is operational. At this time, out of the 82,404 [HUD-associated] units in the areas impacted by Katrina, there has been a permanent loss of only 354 affordable rental housing units. To date, the Department has seen a minimal increase in multifamily insurance claims.

The lack of affordable rental units means construction workers need to be paid more, increasing the cost of reconstruction. It also pushes low-wage workers out of the area,

having a dangerous trickle down effect on the industries that depend on low-wage workers. This is particularly dangerous for the economic viability of New Orleans, where the economy is based on low-wage workers. For low-wage workers, housing should be within reasonable commutes and at reasonable prices.

Rebuilding the affordable rental housing stock is not going to be easy. The majority of the rental units, over 60 percent, were in 1- to 4-unit dwellings. It is much harder to compel small landlords to repair a low-value property that provides a low return on investment than to get a large landlord to repair a property. Even with subsidy from the CDBG program, it is difficult to convince these landlords to repair their properties.

Again, the Department made the commitment early on to work with the owners to repair, rehabilitate or rebuild the impacted affordable housing units. We held meetings, worked diligently with the owners in developing recovery plans, and provided assistance with redevelopment. The Department has provided flexibility on the use of reserve funds, has suspended Section 8 contracts until such time as the units are rebuilt, and is using our authority under Section 318 to move projects to other locations if necessary to ensure safe, decent, and affordable housing. There were a total of 1,054 HUD-assisted or HUD-insured projects with 82,404 units in the areas that were impacted by Katrina. Today, 1,012 projects with 76,346 units have been repaired or rehabilitated and are fully operational. (The overwhelming majority of these units are HUD insured. We do not control occupancy data on those units. We are seeing in New Orleans that as soon as units go online they are snapped up – after the owner offers the right of first refusal to the original tenant.) This number increases every day as units are completed. All of the projects impacted in Alabama are operational. In Mississippi, approximately 98 percent of the projects are operational. In Louisiana, of the 407 impacted projects, there are approximately 37 projects that are still being repaired, being rebuilt, or are in the process of obtaining funds to complete the necessary restorations.

Multifamily property repair and replacement also faces obstacles, but of a different sort, most notably land acquisition and project design. The delays caused by these factors threaten the ability to fully utilize the Low Income Housing Tax Credits allocated for recovery in the timeframes mandated by law.

The path to rebuilding affordable rental housing continues to be challenging. The federal government has done a lot to help the states and the owners, and we are confident that the entities are on the right path to addressing their many challenges. It is a path, however, that is going to take longer than we want.

Mr. Chairman, Members of the Committee, people need help now. Secretary Jackson and the entire HUD family are committed to using our full authority to help families recover, to stimulate economic development, and to restore hope to communities throughout the Gulf. Thank you.