TRANSPORTATION AND HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2011

THURSDAY, MARCH 11, 2010

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 9:32 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Patty Murray (chairman) presiding.

Present: Senators Murray, Leahy, and Bond.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

OFFICE OF THE SECRETARY

STATEMENT OF HON. SHAUN DONOVAN, SECRETARY

OPENING STATEMENT OF SENATOR PATTY MURRAY

Senator MURRAY. This subcommittee will come to order.

This morning, this subcommittee will conduct an oversight hearing on the Department of Housing and Urban Development's budget for fiscal year 2011. We are pleased that Secretary Donovan is with us today to discuss his Department and his budget.

Today, the country faces daunting challenges. Unemployment remains high. Credit is tight. Housing stability is fragile, and the number of homeless Americans is growing. HUD programs respond to challenges across the spectrum of this crisis from stabilizing the housing market to providing assistance to the Nation's most vulnerable.

This subcommittee's job is to provide the oversight and resources to make sure that HUD can effectively fulfill its responsibilities. At the same time, we must also continue to make investments that will strengthen our economy, create jobs, and support our communities, both large and small.

Just over a year ago, we passed the American Recovery and Reinvestment Act, making key investments in public housing, community development, and affordable housing to help those in need and weather the crisis. I commend HUD for getting this funding out the door quickly. And today, we can see it making a difference in our communities, improving housing, creating new housing, and putting people to work.

I have seen these dollars at work in my own State. For example, in Vancouver, Washington, a Housing Authority is using $2.5 million in public housing capital funds to support construction and rehabilitation of housing. The jobs created from these projects are critical to Clark County, where unemployment has now topped 14 percent.

In Yakima, Washington, where for years we have struggled to provide affordable and adequate housing to local workers, recovery funds have gone to renovation efforts that have improved the lives of families, many with children, who live well below the poverty line. But as this funding goes to work and as our economy moves toward recovery, we must remain focused on stabilizing the housing market.

As we all know, for most Americans, the family home is their largest investment, an asset that provides them with a roof over their heads and financial security. This security gives Americans the confidence to spend and invest and plan for the future.

FEDERAL HOUSING ADMINISTRATION

Stabilizing and improving the housing market is critical to the Nation's economic recovery, and the Federal Housing Administration has played a vital role in this effort. When the private sector became skittish about mortgage lending and credit froze, FHA stepped in to make sure that Americans could still get a mortgage, and this has helped to stabilize the market.

That is exactly what FHA was created to do. But taking on this increased role comes with risks of its own. FHA has gone from insuring only 2 percent of the market in 2006 to nearly 30 percent today. This dramatic increase in business requires sufficient staff and the technical capacity to protect FHA from risk and fraud.

Even as FHA's new business grows, it must also continue to manage loans that were made during the height of the housing boom. Unfortunately, FHA is not immune from the wave of foreclosures devastating the housing market. These losses have taken their toll on FHA's finances.

This fall, FHA's capital reserve fund fell below the mandatory 2 percent required by Congress. While this does not mean that FHA requires Federal relief, it is a cause for concern.

For each of these last 3 years, Senator Bond and I have held hearings on FHA to focus attention on the solvency of its Mutual Mortgage Insurance Fund. The recent losses to the capital reserve fund have now brought this issue into focus for others for the first time. FHA must continue to seek ways to strengthen the position of its capital reserve fund to ensure taxpayers will not be left on the hook to pay for risky or fraudulent mortgages.

Mr. Secretary, I commend you and FHA Commissioner Stevens for moving swiftly to assess FHA's risks and to implement reforms to reduce its exposure and recapitalize the reserve fund. These changes both protect the American taxpayer and ensure FHA can continue to provide needed liquidity in the market.

Some of the reforms proposed require a legislative change. One of these would allow HUD to increase annual premiums on FHA mortgage insurance and is included as part of the budget. I will have questions today on this change, and specifically, how it would protect FHA from future losses.

Now, despite some positive signs in the housing market, the crisis we face is not over. And for the more than 2.8 million Americans facing foreclosure, positive national trends offer little comfort. So while I am encouraged today by reports that foreclosure filings appear be slowing, and Washington State fell 13 percent from this time last year, there are still many people at risk of foreclosure.

Areas in Washington State continue to experience severe declines in home values, and nearly a quarter of a million Washington State homeowners are underwater today. So for families living in Clark and Pierce County, Washington, we want to know how the Federal Government can help them hold onto their homes and regain economic security.

Providing help isn't easy, and we don't want to reward borrowers that took on mortgages that they could not afford. But while so many of the early foreclosures resulted from subprime and other exotic mortgages, many of the homeowners today who are in trouble are those that are impacted by the recession. These are unemployed homeowners and those who owe more on their mortgage than the home is worth because of those plummeting home values.

MORTGAGE MODIFICATION

Several efforts have been launched to help struggling homeowners, including the Home Affordable Modification Program, but servicers have been slow to provide permanent modifications. To date, only 116,000 homeowners have received permanent modifications, which is far short of the administration's goal of 3 million to 4 million.

The President recently announced a new program to help five States that have been particularly hit hard by this crisis. While this initiative does attempt to address the problems of unemployed and underwater borrowers, its geographic restrictions will limit its impact on the overall market, including other parts of the country, like Washington State's Clark and Pierce Counties.

Your testimony today mentions other ways that we might assist struggling homeowners. So, today, I want to discuss how we can improve current programs and what other steps may be taken to protect families from foreclosure.

HUD has a broad and important mission. The President's budget requests more than $48 billion in fiscal year 2011 in recognition of the role the Department plays in supporting housing, especially for some of the most vulnerable in our society.

SECTION 8 AND NEW INITIATIVES

This funding would maintain critical rental assistance to help millions of low-income Americans who rely on section 8 vouchers or live in project-based or public housing. The President's budget also provides funding to continue or expand initiatives started in 2010, such as Sustainable Communities and Choice Neighborhoods. The budget also proposes new initiatives, including Catalytic Investment Competition Grants and vouchers for homeless individuals and families.

The largest new proposal is the $350 million Transforming Rental Assistance initiative. This ambitious proposal seeks to address the capital needs of public and HUD-assisted housing. By fundamentally changing the way this housing is funded, the administration hopes to leverage significant private sector resources to preserve this irreplaceable stock of affordable housing.

However, the budget offers few details on the changes HUD would make or in the long-term costs. While the concept may have merit, this subcommittee does not take its responsibilities lightly. We require more information if we are to give the proposal serious consideration. So I want to have a discussion about the long-term plan for this and the cost of this initiative.

PROPOSED CUTS

Now, Mr. Secretary, among the promising reforms included in the budget, there are several drastic cuts to important programs you and I have talked about, including the housing for the elderly and disabled. HUD justifies these cuts by citing program deficiencies. If these programs aren't working effectively, let us fix them. But the President's budget doesn't propose any changes. Instead, it brings the programs to a halt with a promise to just fix them later.

I am also concerned by other cuts proposed in this budget to programs like the Native American Housing Block Grants and the highly successful HOME program. While the President's budget made some difficult choices in order to freeze discretionary spending, this subcommittee may well be forced to consider even further reductions.

The President's budget assumed receipts from FHA totaling $5.8 billion. These receipts would offset some of the spending included in the HUD's budget for next year. Last Friday, Congress received the Congressional Budget Office's re-estimate of the President's budget.

As a result of continued uncertainty about the housing market, CBO concluded the budget would only generate $1.8 billion in offsetting FHA receipts. That means there could be potentially a shortfall of $4 billion just to pay for the program increases proposed in the President's budget. That is a staggering amount, given the housing needs of this country.

This subcommittee is going to face a very difficult task to provide resources to this Department so that it can continue the programs that serve so many Americans across the country, from homeless veterans, to first-time homeowners, to families that need help accessing affordable housing. Secretary Donovan, you have worked very hard to improve HUD's programs, and I hope you can offer us suggestions on how to tackle the complex housing and community development needs that are facing this Nation with limited resources.

So thank you so much for being at this hearing today. I look forward to your testimony in just a few minutes.

But before we have that, I want to turn it over to my partner and ranking member, Senator Bond.

OPENING STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. Thank you very much, Madam Chair, and thank you for holding the important hearing.

We are always pleased to welcome our distinguished Secretary of Housing and Urban Development, Secretary Donovan, who is passionate about housing and community development. He has been working hard to remake the Department, a task that is Herculean, to say the least. We wish him well on his efforts, but we do have some questions, as the chair has outlined.

Now it is no surprise to anyone here that there are significant deficit issues facing the entire Federal Government. Making an already bad situation worse, the Congressional Budget Office re-estimated the President's budget would add $8.5 trillion to the national debt by 2020, with a deficit of $1.5 billion in this fiscal year and another $1.3 billion in 2011. CBO projects the national debt will balloon to some 90 percent of the economy by 2020, while interest payments on the debt will soar by $800 billion over the same period.

But that is only if the interest rates stay the same. And no one I know who is versed in finance or economics generally will propose that interest rates will not rise significantly when lenders see the deficit spending and the tremendous debt we have built up. In other words, we are facing a drowning in debt with interest rates skyrocketing and adding to an increasingly high debt spiral.

I do not believe, as some in the administration do, that making the Federal Government larger is the solution to fixing our economic woes. Nevertheless, we are in an unprecedented budget crisis, which is domestic and global in nature, something we have never faced in my career in Government service.

And as you know, many of the decisions we make on the budget and appropriations will be critical to the future economic health of the Nation. That includes finding the right balance of spending in HUD with regard to both HUD's current programs, as well as the dramatic new proposals contained in the HUD 2011 budget request.

I believe a number of your HUD policy and reform initiatives are bold and thoughtful, but I am very concerned about the cost of these initiatives in both the 2011 budget, as well as the potential huge cost in out-years. For the HUD budget, this is of particular concern since we recently received word, as the chair has noted, that there will be a loss of some $4 billion in FHA receipts. That $4 billion hit will make funding many of the HUD initiatives even more difficult in 2011 and possibly limit funding for this subcommittee's other priorities, like transportation and infrastructure projects.

As you well know, Mr. Secretary, I have long warned about FHA and the potential consequences to the budget of the Department, the appropriations available for this subcommittee, and the impact on our national economy. We need to be asking tough questions like where is money for new programs going to come from.

If the President is serious about promising fiscal restraint, he has to quit treating taxpayer dollars like Monopoly money. Our children and grandchildren are going to have to pay in the future for every extra dollar we borrow and spend, and that is not something I want to be able to tell them.

PROPOSED CUTS

While HUD is proposing to create new or expand existing programs at great cost to the taxpayer, the Department is also proposing to eliminate or cut funding for a number of important and proven programs that serve our most vulnerable populations like seniors and the disabled, as had been mentioned by the Chair, and homeless veterans, something which she and I have led the battle to fund. And to say that we are not pleased by the budget recommendations I would say, at least for my part, is a huge understatement.

Cuts to these programs like section 202 elderly housing, the 811 housing program for persons with disabilities, and the capacity-building funding for LISC and Enterprise will make it more difficult for low-income seniors or disabled Americans to find safe and affordable housing.

Of all the capacity-building entities I have seen, LISC and Enterprise seem to be the ones that are working. I think they should be the model, and I think they should continue to have the resources they need and not have the funds distributed over a wider area, where they do not have the same skills and abilities.

The HUD staff has claimed all of these programs will receive funding once needed reforms are made. It seems much more likely the non-profits will begin to lose their experts during a zero funding year, a brain drain that will only get worse if there is not a significant infusion of new funds in the very near future. Funding in future years will likely be marginal at best, with HUD and the administration arguing that 202 and 811 will be unneeded once the Transforming Rental Assistance, or TRA, program is fully funded, including any provisions targeted to the elderly and disabled.

RURAL HOUSING FUND

Also, I was disappointed to see the administration wants to eliminate a $25 million rural housing fund, something I fought with Senator Harkin to include for many years. This small program offers a unique opportunity for HUD's housing and community programs to partner with rural development at the USDA.

It is a mistake for the administration to ignore the housing needs in our rural communities. Everybody knows the housing programs in the city because people see them all the time. I live in the rural areas. I see them. I travel the rural areas, and I know the need is great. And this budget does not recognize it.

In addition to the dollars and cents, rural versus urban questions, I have overall concerns about the proposal we have received from HUD. Not to keep using a tired, old analogy, but the proposal I received from the Department of Transportation and the budget blueprint has left me feeling a little bit like Bill Murray in "Groundhog Day."

In other words, the budget blueprint this year asks for Congress to write a big check, fails to provide details on the programs we are supposed to fund. I have been there. I have seen that before. I have done that. And at least Bill Murray got smart in "Groundhog Day," and I don't see any of us getting smarter or better as we see Groundhog Day come back again.

TRANSFORMING RENTAL ASSISTANCE

Despite not having the proposed actual language for TRA, HUD's 2011 budget calls for some $350 million for the program, with projected annual costs of some $1.5 billion when fully implemented. There is an old story, an old saw about a pig in a poke, but I won't go into that any further.

Also before Congress is going to sign any check, we need to see the program details. Members of Congress need to see specific legislative language for proposed programs, and it has to be passed. So there are some guidelines in place. You may have good ideas. We may even like those good ideas. We may propose them, and they may not come out on the other end of the sausage factory.

So I, for one, have real concerns about potential unintended consequences of the TRA that could impact low-income families assisted under public housing or other low-income housing programs. Broad waiver language will not do the trick since there is a widespread risk of abuse and a great danger of the lack of transparency.

CHOICE NEIGHBORHOODS VS. HOPE VI

Another program where I need to see some details—and Congress and our constituents, the taxpayers, deserve answers—is on Choice Neighborhoods. Now, we have discussed Choice Neighborhoods many times, and you know that I would like to claim some credit for HOPE VI. And this $250 million program is replacing HOPE VI as the next evolution in affordable housing and revitalizing distressed communities.

And if we can make it better, that is always good. I am willing to do that. But in particular, Choice Neighborhoods proposes to transfer and merge into its account for 2011 all remaining HOPE VI funding, despite having account language that is very broad and which has no metrics for measuring success or for understanding the grantmaking and implementation process.

While Choice Neighborhoods appears to be a much more ambitious program than HOPE VI, we need more information to understand the evolution from HOPE VI to Choice Neighborhoods. I was there at the beginning when HOPE VI was a mere idea until it became a major program, ultimately going beyond housing and transforming entire communities. And I personally know how important HOPE VI has been to communities across the Nation.

Some of our great successes have been in HOPE VI. And that is why I don't want to waste the successes of HOPE VI on Choice Neighborhoods unless and until we see it is a truly viable successor to HOPE VI. I want to ensure this new program is designed and implemented in a manner that will revitalize and grow our low-income communities beyond the greatest potential of HOPE VI. You have assured me that that will happen. I believe you said that in good faith, but it is time that we got to work on the details.

FHA

In addition to specific program concerns, I remain very concerned, as the Chair has indicated, about the future of FHA mortgage insurance. Mr. Secretary, you inherited the FHA problems. To your credit, you acknowledged them. You have taken a number of important steps to address them.

Under your guidance, HUD is proposing a number of new reforms to put FHA mutual mortgage insurance on a solid footing.

The proposed reforms include an increase to annual premiums, as well as credit-related fix, which would allow these borrowers with a FICO score of 580 and above to make a 3.5 percent down payment, while borrowers with a FICO score between 500 and 580 would be required to make a minimum down payment of 10 percent. Borrowers with FICO scores below 500 would be ineligible for FHA mortgage insurance.

It is not that we are not concerned about those people. But before we put somebody in housing, try to get them into owning housing we need to make sure that they can afford to pay it. When they can't afford to pay it, when they don't have any skin in the game, they don't have the means to make the payments and then the American dream becomes the American nightmare. Their communities suffer, and we have seen the tremendous hardship and harm that a whole raft of those mortgages gone badly has caused our entire economy and the world's economy.

While the reforms are important, the FHA still faces many challenges. I remain concerned that FHA is a powder keg that could explode, leaving taxpayers on the hook for yet another bailout.

When we look at the numbers, just as recently as 2007, FHA accounted for less than 4 percent of housing and now, as the chair indicates, dominates the market with a share of between 30 and 60 percent, including refinances. This puts FHA smack in the middle of the housing crisis, and I want to be sure that FHA is dealing with it despite the obvious staffing and expertise shortfall.

I want to know how HUD is dealing with mortgage default litigation problems, especially in light of proposed new FHA reforms. How will these reforms impact homeowners with a mortgage default crisis who are seeking help from FHA? Have mortgage defaults become primarily a Fannie Mae and Freddie Mac problem, or is HUD proposing alternative relief?

While I expect to raise many FHA issues at a scheduled FHA budget hearing later this month, an understanding of the foundation of current FHA requirements now would be useful.

TRANSPARENCY FOR TAXPAYERS

The last point I make is most important, and that is transparency for taxpayers, as we have discussed briefly. I discussed at the hearing for the Department of Transportation, on its budget for the coming year last week, I am still waiting for real transparency in the current administration grantmaking process. Congress has role and a responsibility not only in authorizing and appropriating Federal funds, but also in ensuring that the funds are awarded according to objective and understandable criteria, including clear benchmarks to measure success.

This was a particular problem for me and others when HUD awarded some $2 billion in competitive neighborhoods stabilization programs under the stimulus bill. I have yet to receive, and I look forward to getting an understanding, how HUD cherry-picked the winners. We saw a lot of—we found out later about a lot of good projects which failed. And we want to know how the winners were chosen.

Where is the promised transparency in the HUD grant process? It is critical that the process be transparent, so Congress and our constituents and those seeking the dollars know how the taxpayer dollars are being allocated. In fact, I think the process should be no less transparent than the current requirements for congressional decisionmaking.

There has been a lot of criticism of Congress. We cleaned up our act. We make it transparent. At a minimum, the criteria and process by which grantmaking decisions are made in the administration should be posted on the Internet for every taxpayer, every potential applicant to see, to understand so that community leaders and local people won't be coming to us, saying, "What happened? Where is it going? Why is it going there?"

Cost shares and leveraging of funds also should be made available. Information should be on the Internet so they and we have access to information about other sources of Federal, State, or private funds that may be used to augment grant awards.

In particular, we in Congress expect to be notified of award decisions 3 days prior to HUD announcement, with backup materials and information on the methodology of the award selections, including how these awards meet our housing and community development goals. It is critical that the Nation, Congress, and the administration fully understand the process and decisionmaking of how the billions of Federal housing and community dollars are spent.

Mr. Secretary, I thank you very much, and I look forward to your testimony.

Senator MURRAY. Thank you very much, Senator Bond.

I will turn it over to the Secretary for his testimony. And just to forewarn you, both Senator Bond and I also have to go to an energy and water hearing for a short amount of time. We may be changing the gavel back and forth.

But we will both be very attentive to your statement, and we both have a number of questions. So, with that, I will turn it over to you, Mr. Secretary.

STATEMENT OF HON. SHAUN DONOVAN

Secretary DONOVAN. Madam Chairwoman, Ranking Member Bond, and members of the subcommittee, thank you for the opportunity to testify regarding the fiscal year 2011 budget for the Department of Housing and Urban Development, Investing in People and Places.

I appear before you to discuss this budget in a far different environment than that of a year ago when our economy was hemorrhaging over 700,000 jobs each month, housing prices were in freefall, and economic observers warned that a second Great Depression was a real possibility. Today, though there is still a long way to go, it is clear that our housing market has made significant progress toward stability.

What that has meant to middle-class families is clear. First, security, as a result of stabilizing home prices and lower financing costs, by the end of September, home equity had increased by over $900 billion, $12,000 on average for the Nation's 78 million homeowners.

Second, confidence, though it is still fragile, homeowner equity is key to consumer confidence and to bringing new borrowers back into the market, helping the economy grow at the fastest rate in 6 years and creating jobs.

Third, money in families' pockets, mortgage rates, which have been near historic lows over the past 10 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.

FHA

The Federal Housing Administration has been essential to this improved outlook, in the past year helping more than 800,000 homeowners refinance into stable, affordable fixed-rate mortgages, protecting an additional half million families from foreclosure—and that, Senator Bond, I would note, is through our loss mitigation programs that you asked about, one-half a million families in 2009—guaranteeing approximately 30 percent of home purchase loan volume and fully one-half of all loans for first-time home buyers.

With FHA's temporarily increased role, however, as you said, Madam Chairwoman comes increased responsibility and risk. That is why HUD's fiscal year 2011 budget presents a careful, calibrated balancing of FHA's three key responsibilities—first, providing responsible home ownership opportunities; second, supporting the housing market during difficult economic times; and third, ensuring the health of the MMI Fund.

FHA has rolled out a series of measures over the last year to mitigate risks and augment the MMI Fund's capital reserves—first, to increase the mortgage insurance premium; second, to raise the combination of FICO scores and down payments for new borrowers; third, to reduce seller concessions to industry norms; and fourth, to implement a series of significant measures aimed at increasing lender responsibility and enforcement.

With the help of Congress, FHA has also begun implementing a plan to ensure its technology infrastructure and personnel needs reflect this increased responsibility. All of these changes will lead to increased receipts for FHA for the 2011 budget.

Last Friday, as you mentioned, the Congressional Budget Office released its re-estimate of the President's 2011 budget, including their view on FHA's proposed changes. Although the CBO re-estimate includes a more conservative assessment of how new loans made through FHA's MMI Fund will perform in coming years, both CBO and the administration forecast that with our proposed FHA changes, such credit activity will result in significant net receipts to the Government. We differ, however, on the amount.

While the President's budget forecasts, as you said, Madam Chairwoman, $5.8 billion in net receipts resulting primarily from insurance premiums and other fees, CBO re-estimated these net savings at $1.9 billion. In addition, CBO agrees with FHA that Ginnie Mae and our GI/SRI fund will produce another roughly $1 billion in receipts.

While recognizing that such a difference with CBO complicates budget resolution development, it is important to note that the forecast used in the President's budget will determine the receipts transferred to FHA's capital reserve account. This will help have that fund get back on track to be capitalized with the statutorily mandated 2 percent of insurance in force. I would also note that based on extensive modeling and analysis, we remain confident in our forecast for FHA.

Even with increased FHA receipts, however, because of broader need for fiscal responsibility, we have had to make very difficult choices in this budget. We have chosen to prioritize existing rental assistance in section 8, public housing—public housing operating fund, and other areas, which has required us to propose difficult cuts in a number of our capital programs, as you mentioned, and to target our funding to the most catalytic uses.

TRANSFORMING RENTAL ASSISTANCE

On that note, allow me to highlight some key initiatives. The first is HUD's multiyear effort called Transforming Rental Assistance, or TRA. 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 13 different programs, each with its own rules administered by three different operating divisions.

In my career both in the private and public sectors, it was a constant struggle to integrate HUD's rental assistance streams and capital funding resources into the local, State, and private sector financing that was necessary to get the job done. But I dealt with HUD subsidy programs for a simple reason—because the engine that drives capital investment at the scale needed is reliable long-term, market-based stream of Federal rental assistance.

No other mechanism has ever proven as powerful at unlocking a broad range of public and private resources to meet the capital needs of affordable housing. That said the status quo is no longer an option.

With a public housing program that has unmet capital needs upwards of $20 billion, now is the moment to permanently reverse the long-term decline in the Nation's public housing portfolio and address the physical needs of an aging assisted stock. 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 them so that they are governed by a single, integrated, coherent set of rules and regulations that better aligns with the requirements of other 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 to a Federal operating subsidy that leverages capital from private and other public 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 built, financed, and managed like other housing will we be able to attract the mix of incomes and uses and stakeholders that 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.

To be clear, this commitment to tenant mobility is not to restart old ideological debates about place-based versus people-based strategies. To revitalize neighborhoods of concentrated poverty and segregation, we need the best of both approaches. That is why we look forward to continuing to work with the subcommittee and authorizers on our Choice Neighborhoods initiative to make the redevelopment of distressed public and assisted housing the anchor of broader community development efforts.

CHOICE NEIGHBORHOODS

Choice Neighborhoods builds on and expands the lessons of HOPE VI. Not only that investment at scale can affect dramatic change at the community level, but also that for an investment to be game-changing, it must take into account more than housing alone.

For too long, HUD's community development programs have lacked such a place-based, targeted tool for creating jobs. That is why our budget proposes $150 million for a catalytic investment fund designed to help distressed communities reorient their economies for the 21st century. HUD can't afford to make housing investments in isolation from community development investments, particularly when so many communities are ahead of us in terms of combining housing, economic development, and transportation.

SUSTAINABLE COMMUNITIES

That is why it was so important that we launched our Sustainable Communities initiative in 2010 to support these efforts. I want to thank the subcommittee for making this possible and emphasize the need for continued funding in 2011.

I recognize that I have asked you to help HUD make these investments in a difficult fiscal climate. Our approach has been to target resources where we get the biggest bang for the buck, and nowhere is this clearer than the area of homelessness, where we have seen a 30 percent reduction in chronic homelessness over the last 4 years.

HOMELESSNESS

Our budget request reflects HUD's commitment to its own targeted homeless programs with a $200 million increase. But as chair of the Interagency Council on Homelessness as well, charged with producing a Federal strategy to end homelessness later this spring, it also reflects a commitment to working across silos to end homelessness, embodied by our joint housing and services for homeless person demonstration with the Department of Health and Human Services and the Department of Education.

HUD'S 2010 TRANSFORMATION

Last, let me say a few words about HUD, how it's transforming the way it does business at the agency. With your help, HUD's 2010 Transformation Initiative is allowing us to take long-overdue steps to upgrade and modernize our Department, helping us replace computer programs written in the 1980s, build the capacity of communities—Senator Bond, you mentioned this, and we have been growing our resources for technical assistance—and demonstrate what works and what doesn't.

It has also begun to provide us with the flexibility we need to cross-cutting initiatives. But a critical next step for 2011 is to take this approach further. In part, it is a matter of additional funding to move forward with large, multiyear projects and demonstrations. But just as important is the flexibility to use up to 1 percent of HUD's budget as unexpected needs arise during the year.

For example, to revamp FHA as it stepped up in the mortgage market or to provide technical assistance communities trying to use neighborhood stabilization funds in the most impactful way. These are the kinds of flexible investments other cutting-edge organizations have the ability to make, and they are essential to building the nimble, results-oriented agency our Nation needs and this subcommittee deserves to oversee.

And so, Madam Chairwoman, this budget continues the transformation begun with your help. 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. With your help, I believe we can and that we will.

Thank you.

[The statement follows:]

PREPARED STATEMENT OF HON. SHAUN DONOVAN

Madam Chairwoman, Ranking Member Bond, and members of the subcommittee, 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 in a far different environment from that faced by the Nation and the Department just 1 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 40 percent in just 18 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. Through the combination of coordinated efforts by Treasury, HUD, and the Federal Reserve to stabilize the housing market, we are seeing real signs of optimism.

As measured by the widely referenced FHFA index, home prices have been rising more or less steadily since last April. As recently as January 2009 house prices had been projected to decline by as much as 5 percent in 2009 by leading major macroeconomic forecasters. This is all the more surprising since most forecasters had underestimated the rise in unemployment that has occurred over the past year.

Allow me to briefly explain what halting the slide in home prices and housing wealth has meant to middle-class families.

First, security. According to the Federal Reserve Board, as a result of stabilizing home prices and lower financing costs nationwide, home owner equity started to grow again in the second quarter of 2009 and by the end of September home equity had increased by over $900 billion, or $12,000 on average for the Nation's nearly 78 million homeowners.

Second, confidence. Homeowner equity is key to consumer confidence and is now helping bring new borrowers back into the market. And we all know the important role confidence plays in helping our economy grow—which it did in the last quarter of 2009 at 5.7 percent, the fastest rate in 6 years.

Third, money in families' pockets. Mortgage rates which have been at or near historic lows over the past 10 months have spurred a refinancing boom that over the past year that has helped nearly 4 million borrowers to save an average of $1,500 per year on housing costs—pumping an additional $7 billion annually into local economies and businesses, generating additional revenues for our Nation's cities, suburbs, and rural communities.

At the same time we have taken steps to reverse falling home prices, we have also worked to help families keep their homes. In partnership with the White House, the Department of Treasury, and other Federal regulatory agencies, HUD has helped develop the Making Home Affordable plan, and implement its two major initiatives—the Home Affordable Refinance Program and Home Affordable Modification Program (HAMP). These programs have helped to preserve homeownership for more than 1 million families. More than 900,000 households in participating trial modifications under HAMP currently are saving an average of over $500 per month in mortgage payments. To date, program participants have saved more than $2.2 billion.

And the Federal Housing Administration (FHA) has stepped up to fulfill its countercyclical role—to temporarily provide necessary liquidity while also working to bring private capital back to credit markets. Indeed, the FHA has in the past year alone helped more than 800,000 homeowners refinance into stable, affordable fixed-rate mortgages and deployed its loss mitigation tools to assist an additional half million families at risk of foreclosure.

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 $1.5 billion in funding to help families in 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.

The President's announcement continues 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.

In addition, HUD has 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 would like to say a particular word of thanks to this subcommittee for making our role in that effort possible.

HUD has now obligated 98 percent of the $13.6 billion in ARRA funds stewarded by the Department—and disbursed $2.9 billion. I would note that a portion of HUD's ARRA funding is fully paid out, or expended, only once construction or other work is complete—just as when individual homeowners pay 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 on 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 key leadership by this subcommittee, working with your counterparts in the House—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.

I appreciate the level of trust this action showed in the new HUD leadership and look forward to updating you on the progress we are making with this new flexibility.

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 3 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.

Indeed, 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 modernize these programs to reflect changed fiscal and operational circumstances. Simultaneously, the Department has made the difficult decision to target HUD's housing investments and target them to their most crucial and catalytic uses, primarily rental and operating assistance that best enables 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 28,000 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 direct housing 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 high priority transformation goals 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 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 30 percent of all home purchase loans today and nearly one-half of those for first-time homebuyers. The increased presence of FHA and others in the housing market, including Fannie and Freddie, 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 fiscal year 2009.

It is also providing several outlets of relief for homeowners in distress. First, and perhaps most significantly, it is helping homeowners extricate themselves from unsustainable mortgages by refinancing into 30 year, fixed-rate FHA-insured loans at today's much lower rates. Given how important this is as a route to greater borrower stability, we are exploring additional ways to leverage the refinance option at FHA to help still more distressed homeowners. Further, FHA is continuing to assist those already in FHA-insured loans who are facing difficulty making payments to stay in their homes through a variety of aggressive loss mitigation efforts, which have assisted more than half a million homeowners at risk of foreclosure since the beginning of 2009.

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 20 of this year, 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 increase of its portfolio and 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 percent down payment; and those with FICO scores between 500–579 would be required to make a minimum down payment of 10 percent. 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 percent and to 90 basis points for LTVs above 95 percent. That change to the annual premium will require legislative authority, and we are looking forward to working with the authorizing committees as part of that effort. This new premium structure is sound policy. This premium structure is also 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 $200 million in additional funds each month, providing better underwriting for FHA loans and replenishing 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 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 percent of the effective rent)—the largest gap over the past 4 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 percent 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.

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 2 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 multi-family 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 multi-family development.

HUD is requesting a total of $9.382 billion to meet PBRA program needs. This includes $8.982 billion to be available in fiscal year 2011 (in addition to the $394 million previously appropriated) and $400 million to be available in fiscal year 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 1970s and 1980s, 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 not 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 13 different programs, each with its own rules, administered by 3 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; and (2) 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 of dealing with affordable housing on a large scale—both in New York and overseeing HUD's multi-family assisted housing programs during the 1990s—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.

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.

In 2011, 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 the spring of 2010, the administration will transmit to the relevant authorizing committees in Congress proposed legislation to authorize the long-term property-based rental assistance contracts, with a resident mobility feature, that would be funded by the budget request. 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 this subcommittee's work on HOPE VI and the Quality Housing and Work Responsibility Act, this opportunity would never have arisen. In fiscal year 2011, 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 funding the TRA initiative.

Increases Investment in Proven and Restructured HUD Homeless Assistance Programs

Fiscal year 2011 also marks the first year for implementation of the Homeless Emergency Assistance and Rapid Transition to Housing (HEARTH) Act, which—when signed by President Obama in the spring of 2009—restructured HUD's homeless assistance programs to incorporate nearly two decades of research and on-the-ground experience in confronting homelessness. To support implementation of this important legislation, the budget requests $2.055 billion for homeless assistance funding—a nearly $200 million increase compared to fiscal year 2010.

This additional investment in homeless assistance programs is called for even in a difficult fiscal environment. Culminating in the HEARTH Act, HUD's homeless programs have evolved into a more performance-driven, outcome-based system for targeting and leveraging Federal resources at the local level to combat homelessness. This subcommittee played an indispensable role in this process. In the late 1990s, when less than 20 percent of HUD homeless assistance grants were supporting permanent housing solutions for the most disabled homeless individuals and families, this subcommittee in fiscal year 1999 joined your colleagues in the House in requiring that at least 30 percent of these grants be spent annually on the evidence-based practice of permanent supportive housing, and set forth the ambitious goal of creating 150,000 units of permanent supportive housing for the chronically ill, chronically homeless. Over time, the research foundation for this targeted investment has only solidified—attached to my testimony is a summary of key studies, including several published in the Journal of the American Medical Association, demonstrating that permanent supportive housing both ends homelessness for individuals whom many thought would always live on our streets and in shelters, and saves taxpayers money by interrupting their costly cycling through shelters, emergency rooms, detox centers, prisons, and even hospitals.

As a consequence of the permanent housing set aside, maintained each year by this subcommittee, HUD's homeless assistance grants produced an average of 8,878 permanent supportive housing beds annually from fiscal year 2001 through fiscal year 2008, and a cumulative total of 71,000 beds, with an increasing percentage targeted to the chronically homeless (66 percent in fiscal year 2008 compared to 53 percent in fiscal year 2005, the first year HUD tracked such data). The impact was clear and dramatic. In the 4 years from 2005 through 2008, the number of chronically homeless individuals dropped by 30 percent, certainly one of the greatest social welfare policy achievements of the past decade.

One of the key provisions of the HEARTH Act was its codification of the 30 percent permanent housing set aside pioneered by this subcommittee. Coupled with the level of funding this budget requests, and the alignment of homeless assistance grants with other HUD rental assistance subsidies (1 year terms), this provision is projected to yield over 9,500 new units of permanent supportive housing for disabled individuals and families. This will enable continued progress toward ending chronic homelessness.

The HEARTH Act also codifies the unique competitive process, known as the continuum of care ("CoC"), in which HUD homeless assistance funding and priorities are incorporated within a robust local planning and implementation process. The CoC system provides a coordinated housing and service delivery system that enables communities to plan for and provide a comprehensive response to homeless individuals and families. Communities have worked to establish more cost-effective continuums that identify and fill the gaps in housing and services that are needed to move homeless families and individuals into permanent housing. The CoC is an inclusive process that is coordinated with non-profit organizations, State and local government agencies, service providers, private foundations, faith-based organizations, law enforcement, local businesses, and homeless or formerly homeless persons. This planning model is based on the understanding that homelessness is not merely a lack of shelter, but involves a variety of unmet needs—physical, economic, and social.

Fiscal year 2011 marks the first year for implementation of this and other key features of the HEARTH legislation including: increased investment in the evidence-based practice of homelessness prevention; improvement in the accuracy of the definition of homelessness; support for the project operation and local planning activities needed to continue the movement of the HUD-supported homeless assistance system to a more performance-based and outcome-focused orientation; and provision of assistance that better recognizes the needs of rural communities.

In this period of economic hardship, which in many respects mirrors the early 1980s when widespread homelessness reappeared for the first time since the Great Depression, communities will need all of the tools authorized by the HEARTH Act—and the additional resources requested in this budget—to meet the needs of those experiencing homelessness, including too many of our Nation's veterans. In particular, I am concerned that HUD's Annual Homeless Assessment Report data showed a 9 percent rise in family homelessness from 2007–2008 and the Department's more recent quarterly PULSE data from a small number of geographically diverse localities across the country that suggests a continued increase in homelessness.

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 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 and 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.

Already 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 United States have one or more units of HUD assisted housing. But we have taken this opportunity to renew our focus on place, with the result that the proposed fiscal year 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 to 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 plans to work with the relevant authorizing committees in order to refine these proposals.
  - —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.
  - —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.
  - —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.
  - —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 the project will 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 such 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 toward 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 will also propose authorizing legislation for Choice Neighborhoods, funded at $65 million in fiscal year 2010 on a demonstration basis, and at $250 million in the budget. I am appreciative that Congress was willing to fund Choice Neighborhoods on a demonstration basis in fiscal year 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 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. Again, we will be working with the House and Senate authorizing committees on these efforts.

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.

While this budget does not continue a $10 million initiative within the FHIP program, funded in fiscal year 2010, specifically directed at mortgage lending discrimination, fair housing funding, generally, and FHIP funding, in particular, remains 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 the fiscal year 2009 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 fiscal year 2009.

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, as well as 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 fiscal year 2010, to continue the transformation of PD&R into the Nation's leading housing research organization. The role of housing issues in starting the economic crisis, and the importance of housing issues to the Nation's economy, shows the urgent need for this housing 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 decisionmaking 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 fiscal year 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 fiscal year 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 most cutting-edge institutions. This recognizes not only the need to have targeted funding 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.

While reprogramming requests to the Appropriations Committee provide some flexibility along these lines, these are inherently limited in comparison to TI funding because of absolute caps in statutory appropriations accounts.

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 the subcommittee did recognize this reality in funding this effort for fiscal year 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 one-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 1 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 3 years has temporarily expanded from insuring 2 percent of the market to, as mentioned previously, approximately one-third.

As you know, HUD staff has been meeting with the bipartisan, bicameral appropriations staff to discuss our plans in this area, and have recently submitted a detailed report on our proposals. And so, while I appreciate the level of trust this subcommittee showed in HUD leadership for fiscal year 2010, I would hope that the progress we have demonstrated and the extraordinary need to build on these successes would warrant full funding for the coming fiscal year.

CONCLUSION

In sum, this budget continues the transformation begun with the 2010 budget—a budget I recognize simply would not have been possible absent the leadership and commitment of this subcommittee. 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 this subcommittee's support, 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, Madam Chairwoman, I would be glad to answer any questions.

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

—Preserving Safe, High Quality Public Housing Should Be a Priority of Federal Housing Policy, Barbara Sard and Will Fischer, October 8, 2008 (noting that "90 percent of developments meet or exceed housing quality standards, although most developments are more than 30 years old, and many will need rehabilitation.").

FHA

Senator MURRAY. Thank you very much for your statement, Mr. Secretary.

Let me start because you talked a little bit about your opening statement, I did as well, that OMB and CBO differ considerably on the amount of receipts that they estimate FHA mortgages are going to generate in fiscal year 2011, a difference of about $4 billion. How would a reduction of that magnitude impact HUD programs?

Secretary DONOVAN. Obviously, that kind of reduction would be substantial. Again, let me point to the fact that CBO does agree that the changes we are proposing in legislation would have a positive impact on the fund.

My FHA Commissioner is testifying today on the House side in front of the authorizing committee on those changes. I believe it is critical that we do get the authority to increase our annual premium and that we continue to do the kind of risk management changes and others that we need. CBO fundamentally agrees that those changes will add to the receipts.

We have begun to work closely with CBO to look at the reasons for the discrepancy. We would be happy to work closely with this subcommittee, as well as the Budget Committee, to look at the reasons for that discrepancy. Obviously, as you know, while the CBO view is important, it is ultimately advisory, and the Budget Committee can make a determination on its own about which of the forecasts make the most sense and what it is going to choose as the path for the budget.

And I would further add that, as I mentioned in my testimony, we have substantially increased our capacity at FHA to monitor the health of the fund, made numerous changes and improvements in the way we project it. And in fact, thus far this year, we are running ahead of our projections in terms of losses and receipts to the FHA Fund.

I would also add that to ensure that we were being conservative in the President's budget we did use a relatively conservative house price forecast that has been below what has actually happened in the housing market since then.

So for all of those reasons, I continue to be confident in our projections, and we would be happy to provide whatever information you and the Budget Committee might need to make a final determination about the path of the budget.

Senator MURRAY. And are you working with the Budget Committee on that?

Secretary DONOVAN. We have been working closely with OMB on it, and they have been leading discussions with the Budget Committee.

Senator MURRAY. Okay. Well, one of the paths that you just talked about had to do with increasing the premiums on the FHA mortgages, those premiums that are used to cover any claims on mortgages. But the losses in recent years have caused the capital reserve for the FHA to fall below that mandatory 2 percent. In order to recapitalize that, you are planning on increasing the premiums.

Under existing authority, FHA will increase up front, I think, 2.25 percent in April. But you also are saying you need authorizing language to do that. How is your progress going with the authorizing language, with the authorizing committees on that?

INCREASE IN ANNUAL PREMIUM

Secretary DONOVAN. So we have proposed and we do have the current authority to raise the upfront premium to 2.25 percent. We believe, and I think there is broad agreement, however, that it is a better approach, both safer for homeowners and ultimately better for the health of the FHA Fund, to have a combination of an increased upfront premium, as well as an increase in the annual premium. And we currently do not have the authority to raise the annual premium. That is the authority that we are seeking through legislation.

We have had numerous meetings with both sides of the aisle on the authorizing committees; have heard a lot of support. In fact, Ranking Member Capito introduced her own bill yesterday that included a broad range of the proposals that we have. And so, I am encouraged by the progress that we are making with the authorizing committees on that.

I would make two other notes. One is that not only is increasing the premiums something that is important for the health of the fund, but in addition to that, increasing the premiums, I think, is the single most important thing FHA can do to encourage the private market to return. We are already hearing, once we announced the increase in our upfront premiums, a number of private mortgage insurers and others beginning to move back into the market. And so, I think it——

Senator MURRAY. Once you announced the 2.25 percent?

Secretary DONOVAN. The 2.25 percent. And so, I believe it is important, given that we believe FHA's current role is a temporary role, that we want to see the private market return, that raising the premiums sends the right signal to the broader market and will help others return to the market.

The last thing I would note is that we do have the current authority to raise the upfront premium even further. So increased receipts along the lines proposed in the budget are not completely dependent on the legislation.

Senator MURRAY. Increase above the 2.25?

Secretary DONOVAN. Above the 2.25.

Senator MURRAY. Do you have authority to do that without——

Secretary DONOVAN. We do have the ability to go up to 3 percent currently. However, and again, there is wide agreement on this, it is a better path not to raise the upfront premium that far or even to keep it at the 2.25 that we have already proposed to raise it to, but to increase the annual premium further in order to provide more security for homeowners as well and a better deal for homeowners and to build the fund more quickly.

Senator MURRAY. Are you making any progress in the Senate Banking Committee?

Secretary DONOVAN. We have had very good discussions with them on it as well. The House has taken the lead with their own bill, but we have heard bipartisan support around many of the changes that we have proposed.

Senator MURRAY. If we were to get that kind of legislation passed, when would you anticipate the capital reserve funds will be at or above the required 2 percent? How long would it take?

Secretary DONOVAN. Based on our numbers, we believe that the 2 percent is achievable by 2012 or 2013, based on conservative assumptions in house prices.

Senator MURRAY. When would the legislation have to be enacted in order to have that date?

Secretary DONOVAN. One of the keys about getting the legislation enacted as quickly as possible is that our estimates are that every month sooner we get the legislation is another $300 million in net receipts to the FHA Fund. So every month that we get that either later or earlier has a $300 million impact on those funds.

STATE OF THE HOUSING MARKET

Senator MURRAY. Okay, all right. Well, let me move on.

It seems that every day there is a new report out there on the state of the housing market. But the reality is that economists often arrive at completely different conclusions from the same housing market data.

You have testified that housing prices have held steady or risen since last April, which provides reason for optimism. However, in January, new home sales plummeted to the lowest level in 50 years, and many regions in my State continued to experience some severe home value losses.

Do the reductions in home sales that we saw in January make you concerned about the stability of the market, and when do you expect that we may see home prices stabilize?

Secretary DONOVAN. What I would say about that data, widely expected with the original expiration of the home buyer tax credit that there would be a decline in sales during December and January. I would say that the decline in January was somewhat worse than expected. Part of that was weather driven, frankly. But even beyond that, there were, I think, notes of concern that we took from those numbers.

I think what it highlights most of all is that the levels of prices in home sales continue to be fragile. They are still above where they were a year earlier, which is, I think, an important benchmark. But one of the reasons we supported the extension of the home buyers tax credit, as well as we continue to support the importance of FHA, the GSEs, and other interventions keeping interest rates low is that we are concerned about the fragility of the housing market.

Overall, again—and this goes to your point earlier—when we came into office, widely predicted economists on both sides of the aisle, and more broadly across the spectrum, expected on average another decline of 5 percent in home prices last year. That did not happen with the support of the administration. Home prices were basically level during last year.

So I think we have had the impact of stabilizing the market. But it is fragile, and we need to continue to focus and do more to ensure that we are on the right path with home prices.

Senator MURRAY. One of the programs that the Federal Reserve is going to end is the purchase of mortgage-backed securities that has helped quite a bit, and the home buyer tax credit is going to expire here shortly. Are you concerned that if we don't extend those important initiatives, we are going to add to that fragility?

Secretary DONOVAN. Typically, the home buying season is slowest during these winter months, and we will all be watching very closely the sales numbers as we move into the spring and as we get closer to the expiration of the tax credit. I would say that it is too early to decide that.

My strong belief based on the indicators that we have seen is that the Federal Reserve is taking a very measured approach to stepping back that program and will be watching the market very closely. We will be doing the same.

But I think it highlights the fact that with FHA, while we have significantly stepped up our risk management, increased underwriting requirements, down payments, raising premiums, that we must take a balanced approach and not go too far to exclude buyers that can be successful in the market. And so, that balanced approach, I think, is critical, as well as watching the numbers over the next few months in the spring buying season very, very closely.

Senator MURRAY. Okay. Senator Bond?

Senator BOND. Do you want to continue your questions and do those, and then let me do mine? Then go on, go to E&W, and let me—I will, if you trust him to my tender mercies?

MAKING HOME AFFORDABLE PROGRAM

Senator MURRAY. All, Mr. Secretary, we have reached a gentleman's agreement here. I am going to finish the question that I need to ask you right now and then turn the gavel over to Senator Bond, who is going to ask his questions and then come to the Energy Committee, if that is okay with you?

So I wanted to ask you about the Making Home Affordable Program. One of the programs in that, the Home Affordable Modification Program, HAMP, reduces a homeowner's monthly payments by lowering interest rates or spreading a mortgage out over a longer period of time.

That program was supposed to help about 3 million to 4 million families by 2012. But as of January, only about 116,000 homeowners have received permanent modifications under that. We are hearing that servicers have been struggling with burdensome changing rules, and borrowers are confused. And wondered what changes you were looking at on that program?

Secretary DONOVAN. So, first of all, I would say that there is no question that there were early implementation problems with servicers who did not have the capacity to be able to reach borrowers and that there has needed to be, and there has begun to be, a significant increase in focus, as well as resources, at the servicers. We have also taken a number of steps to streamline the process, streamline documentation, and simplify the process.

One of the most important changes is that we have announced that we will be requiring all documentation to be gathered up front, rather than at two different points—at the beginning of the trial modification and before permanent. That should greatly simplify the process.

And we have also done an enormous amount of outreach in locations around the country to bring homeowners and servicers together with fairs and a whole range of other events and direct connections. We have folks under the direction of the servicers literally going door-to-door to try to get homeowners qualified.

What I would point out is that based on all of those efforts, we were able to reach just 1 year after the creation of the program—just 1 year after the creation of the program more than 1 million homeowners with trial modifications. And I think it is very important to point out that those trial modifications are having a significant positive impact for those families, average savings per month of over $500 and significant benefits to them.

So, based on that, we are on track to reach the 3 million to 4 million homeowners that we originally committed to. We are concerned that the permanent modifications have not been moving quickly enough. We have significantly increased the pace of that. And we today are seeing about 50,000 new permanent modifications a month, based on our recent experience. And so, I do believe while we still have some improvements to go, that we are making significant progress in terms of home affordable modification.

I would finally just say that—and by the way, we have almost 20,000 of those in the State of Washington. I would be happy to share more detailed information with you on that.

Finally, I would say that that is only a part of the broader strategy. And with the announcement the President made that you referenced in Nevada just 2 weeks ago, as well as a number of other steps that we are taking, I believe we are——

Senator MURRAY. Yes. Let me ask you about that. You announced this program to help these five States that—in Nevada a few weeks ago. What is the specific timetable for implementing that program, and when would we start seeing results on that?

Secretary DONOVAN. So, on that program, what we determined is that we have a number of national efforts. We continue to examine new national efforts, but that the challenges facing those places are quite different depending on the State. For example, Michigan's challenges are very different from Nevada's or California's.

And so, what we did was to ask the five States, their State housing finance agencies, to come in and propose tailored programs for those States that would most effectively target the problems that they are seeing. We have seen very effective State programs in a number of places, Pennsylvania and others, along these lines, particularly targeted at unemployed homeowners and underwater homeowners.

We have asked the States to come in and propose to us within the next few weeks plans. We will then review those plans, and we hope to be able to approve them within the next month to 6 weeks and then to be able to start implementing those programs immediately at that point. Again, many of these State agencies already have programs up and operational that we could enhance or change that could get going very quickly.

Senator MURRAY. Okay. Are you looking at expanding that all? In my home State, we have about a quarter of a million Washington State homeowners today who are underwater, representing about 16 percent of our homes, especially in two of our counties, Pierce and Clark Counties. Are you looking at expanding this to any of the other States?

Secretary DONOVAN. What we are looking at, Madam Chair, is broader national efforts around negative equity and unemployment that could target the issues that you are talking about in your State.

One of the reasons we wanted to take the approach on the program that the President announced in Nevada is to test models that then potentially could be used in other States. So we don't have any immediate plans to expand it until we have begun to see the results. But we are working on other efforts, which I would be happy to follow up with you on, and talk more about, that would nationally target the negative equity issue and unemployment that could have real benefits in Washington.

BACKLOG IN PUBLIC HOUSING CAPITAL IMPROVEMENTS

Senator MURRAY. Okay. We would like to hear more about that.

I wanted to ask you about the backlog in capital improvements needs in public housing now estimated at over $20 billion. The President's budget proposes the first phase of an ambitious plan designed to leverage significant private sector resources to tackle that backlog and preserve those assets.

I agree. We have got to find a long-term solution on this, but I am concerned about the absence of detail in the proposal so far and its cost.

For 2011, the administration is looking for $290 million in additional subsidies in order to leverage those private sector dollars. When fully implemented, I understand the program is going to cost about $1.4 billion each year. How would you accommodate this major new requirement, given the President's commitment to freeze discretionary spending over the next 3 years?

PUBLIC HOUSING CAPITAL FUND

Secretary DONOVAN. I think one of the important points to make about this initiative is that the fundamental change that we are talking about is shifting from an operating and capital approach to one which has only an operating stream. So while there are increases that we are proposing in operating subsidies in the budget, we will have, particularly over the longer term, significant savings and, ultimately, not require any capital funding for public housing in a separate account. And so, that is one way that we have offsetting savings that come from the way that we are proposing this.

A number of other points, though. That does not account for efficiencies that this will achieve. I talked in my testimony about the enormous complexity of the current range of programs and how difficult it is to achieve mixed financing and other things. Part of that are operational costs at the Department, which we have the potential to do significant savings on. We have begun to estimate those. Those are not simple to estimate.

Senator MURRAY. Sure. Are you going to put forward proposals to cut the operating stream side of it, expenses?

Secretary DONOVAN. The capital?

Senator MURRAY. Yes.

Secretary DONOVAN. Yes. There will be offsetting reductions possible in the public housing capital stream as a result because we will be moving to a system where there would only be operating subsidy going to those developments. And they would use—just as is currently done in almost every other program that we have, funding could be raised privately or from tax credits or other sources to pay for the capital needs.

And so, that we would go from this more complex two-subsidy system that we have today with public housing to a one-subsidy stream. It would require the operating subsidy to be higher, but it allows us to offset to a great extent that increased cost to the operating subsidy with reductions and, ultimately, elimination of the capital stream.

There will also be significant savings in terms of reduced complexity for the developments themselves. The management, oversight, the soft costs of hiring lawyers, and all kinds of other things around transactions that——

Senator MURRAY. It sounds really good. I just want to see how it works on paper so we have accountability in the system and we know it works.

Secretary DONOVAN. And I know that we have been working with your staff to try to get more details about the long-term costs and savings around the proposal.

TRANSFORMING RENTAL ASSISTANCE

Senator MURRAY. We will need to see those. Okay, good.

One of your proposals is to transform rental assistance to make sure that tenants have mobility options, even though from what I see, the funding is going to be tied to a particular unit. Now I understand that you are modeling this proposal on one of the provisions of the section 8 Tenant Based Rental Assistance Program.

Under the existing program, PHAs are allowed to commit or project-base a voucher to a particular unit.

Secretary DONOVAN. That is right.

Senator MURRAY. This enables the PHAs to leverage private resources to finance the construction or rehabilitation of those units. But with project-based vouchers, PHAs are able to make sure residents have mobility by providing them with another tenant-based voucher from their existing supply if a person decides to move.

However, your proposal would allow participation by entities that don't have voucher programs, whether they are public housing authorities or owners of other HUD-assisted housing. The lack of vouchers would appear to be a barrier to mobility in these systems. In these cases, how do you provide residents living in this type of housing with mobility options?

Secretary DONOVAN. It is an excellent question. And mechanically working out the operations of linking those housing developments with vouchers is a very important part of the proposal. And I would just say broadly, we have been spending a lot of time working with stakeholders, talking with OMB, within the administration, and also reaching out to the authorizers, as well as your staff, to discuss a lot of these issues. And we expect not only to have authorizing language, but also far more detail based on the input that we are getting from stakeholder meetings and others that we are doing.

On this mobility point specifically, first of all, what we are looking to do is to make sure that if a housing authority or another entity does not have control of a voucher program themselves, that we link them with a voucher program in the area where the project is located to ensure that there are vouchers available for those families that would move. What we are looking at is sizing exactly how big that pool would be and to ensure that we are not creating too much of a need for additional vouchers to be able to do that because, as you rightly said, the cost of that and the potential pressure on the voucher program overall is important.

We believe based on our latest modeling that we can achieve significant mobility, if not complete mobility, with the existing resources that we have. But we want to come back to you with a number of options on that that would say if we want to do this amount of mobility, here is what we could do.

Senator MURRAY. This is what it would cost.

Secretary DONOVAN. If we wanted to do further mobility among a broader population, here is what the cost would be, and here is how we might be able to work it. So we are working through a lot of detail on that and look forward to sitting down with you.

Senator MURRAY. Okay. We want to be continually updated on where you are with that.

Secretary DONOVAN. As always, you have hit on a very important piece of this, an important point about how we achieve that mobility.

HUD–VASH PROGRAM

Senator MURRAY. Okay. And lastly, I wanted to ask you about the HUD–VASH program. You know this is really important to both Senator Bond and I. We have worked very hard to include it in our budgets and appropriations over the last several years.

I have heard wonderful stories from veterans in my home State, in Walla Walla, Washington, that have gotten jobs, gotten healthcare, and gained sobriety because they have these vouchers. There are similar stories across the country. But I know this program has faced some challenges in implementation in some parts of the country, and the VA is, as you know, struggling to quickly hire case managers and adapt to this new model of permanent supportive housing.

Based on the most recent data, it appears that now only about half of the vouchers that we provided in fiscal years 2008 and 2009 are actually being used. Can you tell me what HUD and VA are doing to overcome these problems and make it successful? Because we know when it gets out there and people are using it, it makes a huge difference for our veterans. But having administrative challenges at any level here on the ground is a disservice to the veterans.

If you can talk to me about what HUD and VA are doing?

Secretary DONOVAN. Absolutely. And let me just start by saying your support and championing of this program has been absolutely critical, and we believe it is having a tremendous impact on veterans, despite some of the challenges that you talked about.

I also would put it in the context of the commitment that the President and Secretary Shinseki have made to end veterans' homelessness. VA has included a $265 million increase in funding for veterans homelessness in its proposal for 2011. So this is in the context of broad support for the intent of the program and, more broadly, ending veterans homelessness.

The way I would characterize the challenges largely are that VA is an expert in healthcare. What has been required in order to make the program effective and to fully utilize the vouchers has been building a capacity beyond healthcare that includes community-based outreach and the ability to connect the healthcare and other services available at VA hospitals with the housing and other support services that may be necessary.

Where we have seen great success is where VA hospitals have built that capacity, and we have begun to connect them with our continuums of care, community-based providers where they can form links to ensure they are finding veterans where they are, whether it is on the streets or in shelters, as well as helping to build their capacity and understanding about the latest techniques of whether it is housing first, supported housing, and others.

And so, whether it is in Washington, DC or in many other places, we are seeing significant increases in utilization of those vouchers with those targeted strategies. And we have now developed with VA a plan to try to more broadly spread those. We have spoken about this, and you had a number of good points the last time we spoke about this that we are incorporating into that thinking, and we want to come back with you with a response on that.

Senator MURRAY. Okay. Well, my subcommittee really wants to work with both you and the VA to get this out. I was really disappointed the President's budget didn't include any funding for

2011. We can't let administrative lack of dialogue or lack of working on problems keep these vouchers from going to our vets.

So we want to keep working with you on the implementation, and clearly, that remains a high priority for this subcommittee, and I thank you for being committed to that and working with the VA on that.

Secretary DONOVAN. Thank you.

Senator MURRAY. Senator Leahy has joined us. Senator Leahy, I will just let you know I have to run to the Energy and Water Committee really quickly. Senator Bond is on his way back. I am going to, without asking you, turn the gavel over to you and allow you to go ahead and question the Secretary.

Senator HUD will be—Senator HUD, he would love that.

Senator Bond will be back shortly. And if you finish before he gets back, if you could just put it in temporary recess, he will be here within——

RURAL AMERICA

Senator LEAHY [presiding]. Of course, and I am going back to a mark-up in Judiciary. But I was able to get permission to leave the Judiciary meeting, funny how that works.

Thank you, Madam Chair. And thank you for the tremendous job you do on this and other appropriation matters.

Secretary, it is good to see you, and I appreciate having you here to discuss the administration's budget request. So many of the programs in your Department have served my State very well, you have got one heck of a portfolio, and there are probably days when you wish it wasn't quite as much. But I would welcome you up to Vermont sometime to see the good things HUD has done to provide affordable housing, especially in our rural communities.

We always think of housing in urban settings, but my home State has only 660,000 people, and a lot of it is very rural. But something that works in rural Vermont could also work in rural California, or New York, or Texas, or elsewhere.

Now I know others have asked you about the Department's proposal to cut the budgets of the 811 and 202 programs and the HOME program. I worry about this because as I look at the budget, I am afraid there is a shift of priorities from rural areas, rural America to urban areas, and I remind everybody that rural America still is a third or more of America's population.

Of course, back at the time of Franklin Roosevelt, they were concerned about rural America, and we had rural electrification, a number of other programs that made an enormous difference in society. I know it did with my grandparents in Vermont and others.

But Vermont and other rural States rely on these programs to build affordable housing for low-income, elderly, and disabled residents. So if Congress agrees with your budget proposals, how are you going to deal with the problems of rural America?

Secretary DONOVAN. Senator, thank you for the question. I look forward to visiting you in Vermont. It is, I probably shouldn't say this in a Senate hearing, one of my favorite States. I spent a lot of time there——

Senator LEAHY. Mine, too.

Secretary DONOVAN [continuing]. Growing up, and just a beautiful, beautiful place.

So let me say a couple things about this. First of all, we had to make some very difficult choices in the budget this year, given the broader outlines of the Federal budget deficit, and we made a fundamental choice to focus on existing households that we serve and ensuring that we were fully funding our major rental assistance programs. That required capital cuts in a number of different areas. Just to be clear, those rental assistance programs are critical in rural areas of the country as well, and we would be happy to get you more detail on how they support rural areas.

I would also say that, today, the single most important way that we fund housing for the elderly and disabled in rural areas and other areas is through the tax credit program. Eight times more senior housing is developed through tax credits than through 202 and over 10 times more for people with disabilities. And so——

Senator LEAHY. But I still come back to my basic point. I worry about the way this is set up, that we are seeing a shift from rural to urban, and that is what I am going to be most concerned about. Because there is no way I could support—I could support an appropriation that did that.

Secretary DONOVAN. And I believe that that is, in fact, not the case. Section 202 and 811 are equally available in a range of areas. But let me point to a few things that I think are particularly targeted to rural areas in the 2011 budget proposal.

SUSTAINABLE COMMUNITIES

First of all, we will, for the first time ever, be establishing a program specifically targeted to rural homelessness in 2011. That has never been done before. We have—because of the work of this subcommittee, in our 2010 budget, we will be making Sustainable Communities funding available for the first time with a specific 25 percent set-aside for smaller communities, and that is a critical effort. We are also building on our experience in investing in rural economic development through a proposed catalytic investment fund, which will be an important resource available in rural areas as well.

So not only do I believe that we have housing resources specifically for constructing senior housing and housing for people with disabilities in rural areas, but that we are actually increasing our focus on rural areas with a number of different proposals in the budget.

SHARED EQUITY PROGRAMS

Senator LEAHY. Thank you. I look at some of the different things you have done—the administration has done and Congress has supported to promote home ownership. In HUD's previous budget request, the Department expressed interest in an innovative home ownership model known as shared equity. It is typically run by nonprofits.

They promote home ownership among low- and middle-income families by providing down payment assistance. The affordability of the home is retained. When the buyer eventually sells the home, the nonprofit recoups what they put for the down payment and also part of the appreciation. They also usually have the right of first refusal to buy the property. If Congress included funding for a pilot program to increase shared equity programs, is that something your Department would support?

Secretary DONOVAN. We certainly not only believe in shared equity models, but there are a number of ways that we have begun to support those. What I would suggest is that we would love to sit down with your staff and explain what we are already doing around shared equity and see if there is a way we could get to a pilot of the kind that you are talking about, even under existing authority, and then describe, be able to figure out what additional authority might be needed to achieve what you are——

MAKING HOME AFFORDABLE PROGRAM

Senator LEAHY. Thank you. And we will. Whenever you would like, we will make sure we have our folks ready.

And in your prepared remarks that were read earlier, you spoke about the housing market. You noted that a lot has been done by the administration to right the ship, and I am pleased that many Americans have been helped by the Making Home Affordable Program. I think we all know the societal value of home ownership and community value and everything else, to say nothing about the economic well-being of the country.

I am concerned about some who have slipped through the cracks. One of the concerns I hear most often on housing when I am home in Vermont is that some of the lenders in the program aren't abiding by the rules. The homeowner has been having a hard time getting straight answers, and it is frustrating because I will hear questions, whether walking down the street or at the grocery store or wherever. They say, "We can't get a straight answer."

Is your Department and Treasury looking at this issue of whether this is happening in States? Because it is to all our benefit if people can be homeowners, but they are going to have to have—they are going to have to be able to get the answers they need.

Secretary DONOVAN. There is no question that particularly in the early months of the program, servicers—there were significant problems with servicers. There continue to be significant problems in some cases.

We have both pushed servicers to create better communication, more resources, and more people in their call centers, going door-to-door to do that. But we have also created very specific standards for exactly what the timelines need to be for servicers to get back to homeowners with a clear response on whether they are eligible or not. We did that just a month or so ago.

And in addition to that, we have begun to impose penalties on servicers who are not following those guidelines. So, yes, we are hearing those issues, and we are taking action on them.

Senator LEAHY. Good. I must admit, and as Senator Bond knows, when somebody corners you in the grocery store and they have got a concern, they have got a concern. And I sometimes find those—actually, I like that. In a small State like ours, everybody knows everybody. And nobody hesitates to come up and ask you the questions. And this thing is occurring too often to make me think it is just a random issue.

Senator Bond is here, who knows these issues as well as anybody, and I am going to turn the gavel over to him.

Senator BOND. Well, I appreciate getting the gavel back from my good friend. Senator Leahy has outlined the concerns we have in rural America. I had raised those earlier, Pat, before you came, and they had—we had one little $25 million rural housing program for HUD to work with USDA, and that was gone.

So I was interested to know that the Secretary had said while they have zero budgeted, that something new is going to spring full-blown out of somewhere. And I can assure you that those of us who live in places where we don't have a rush hour, we have a rush minute, there are—they can't even—radio stations can't even sell drive time advertising because nobody is in the car that long unless they are driving to another city. And then that is——

Senator LEAHY. If the Senator would yield? Last week, Marcelle and I were in Vermont, and I got in the car. We were driving somewhere. And as I go out of the driveway, I started to reach for the radio to hear the traffic report, as I do when I am driving back and forth in Washington. And I am like, "What am I doing? There is no traffic."

But I have been in some of the rural areas of your State, which is so beautiful, it made me think of home. But the needs are the same. And with that, now that we have done our bit——

Senator BOND. A little soft shoe there.

Senator LEAHY [continuing]. To show you that we care about rural America, but Secretary Donovan, I know you do, too. So thank you.

RURAL HOMELESSNESS

Senator BOND. Thank you, Pat.

And Mr. Secretary, maybe you would want to comment on that? You have got a new rural housing initiative to replace rural housing?

Secretary DONOVAN. Well, I mentioned as you were coming in, a range of efforts in the budget. That is an issue I know you care a lot about. We will be implementing the first-ever rural homelessness effort specifically in the budget and that is something that, particularly given that we have seen a 56 percent increase in rural and suburban family homelessness over the last year, absolutely critical.

We are expanding efforts for economic development. The $25 million that you talked about was targeted to economic development, and we are proposing a $150 million fund in the budget, which would have a portion of it specifically targeted for rural areas. So I don't believe that we are not going to have the kind of effort——

Senator BOND. I will just ask the question. Are you going to work with the USDA on rural development?

Secretary DONOVAN. Absolutely.

TRANSPARENCY IN HUD PROGRAMS

Senator BOND. That is one of the secrets because you need the housing. You need what USDA can bring. And I think it is important that you maintain that collaboration. If you are talking about moving 25 to 150, I am happy with that. But I just—I want to work with you to make sure that it continues to work because, as Senator Leahy said and I know, there are problems there.

Let me go to the issue of transparency, and I mentioned to you before I sat down that I am concerned that HUD decisionmaking is open and objective. Are there political decisions which enter into that? Do you get directives from either the top of the administration or Congress on how you make those? Are those transparent?

Secretary DONOVAN. Absolutely.

Senator BOND. And to what extent are those involved in the decisionmaking?

Secretary DONOVAN. Let me be very clear. My "absolutely" was to the transparency. We make our decisions, particularly on competitive grants, in a highly transparent way. We publish the criteria for those as we did with NSP2. We have—with every single Recovery Act grant, have made those available on recovery.gov, our Web site, with detailed information about where the money is going, how it is being used.

We have every applicant who wants to sit down with us and go through the details of how their application was reviewed and scored, we respond to those requests. We would be happy to sit down with you about any specifics around that.

As you know, whether it is HOPE VI or a range of others, we run competitions, and we follow very, very strict guidelines in terms of how they are evaluated and——

Senator BOND. Is there any notification or transparency as to those who apply? We hear about some, but we don't even know if we know all of the ones that are coming from our State so we can follow them. Is there a posting of the applications?

Secretary DONOVAN. We notify members in advance of making those announcements.

Senator BOND. Yes. But when you get the applications, do you notify? Is there any public notice of the application? Who is in there? Do you advise the representatives in Congress of those in advance of the process?

Secretary DONOVAN. I will say I am not sure if we have a standard process for notifying members about applications in advance. We can certainly get back to you with more detail on the process we do follow.

Senator BOND. My staff has some questions about that, and we are a little concerned. We look forward to working with you on that.

Secretary DONOVAN. Okay.

SUSTAINABLE COMMUNITIES INITIATIVE

Senator BOND. Because I think most members, certainly over on the Senate side and, I would assume, on the House side, would like to know if there are 3, 10, 15, or 20 coming in from our State. Because we want to work with them, and we may be able to shed some light on community support because we are out there. We are listening to the people. We know some of the challenges they face, what the State and local priorities are as well, and we want to see those taken into account.

If the State is putting money into it and the locality has some skin in the game, to me, that is a very good indicator that this is something the Feds should look at carefully.

Let me ask some questions about—a major question about sustainability. Your DOT friends call it "livability." I don't know if that debate has been going on for a long time. But I want to make sure, once again, that the Federal Government is not forcing conclusions on local communities.

How do you make these sustainability decisions? Do you do it with DOT and EPA? How much involvement do the State and the local governments have in working with you to make those sustainability determinations?

Secretary DONOVAN. Let me say two things about that. First of all, we here—the fundamental issue here is that more and more American families are spending a huge portion of their budgets—the average family today spends 52 percent of their budget on housing and transportation combined. And not only that, they are sick of sitting in traffic rather than seeing their family or having long commutes in rural areas in some cases to get to jobs. There is a whole range of challenges that we see.

And so, we feel we are responding to local needs and choices on that front. But the problem has always been that housing and transportation investments haven't been coordinated at the Federal level because there wasn't the kind of partnership that we are talking about.

So we have begun to coordinate very closely with the Department of Transportation, with DOE—Department of Energy—and Environmental Protection Administration, just to give you an example. On the recent TIGER grants that were awarded as part of the Recovery Act, we had HUD staff and EPA staff actively involved in the process, first time it has ever happened, of evaluating TIGER grants, to look at the connection of those to housing. So that is an example of that.

On the State and local piece of this, we believe very strongly that this is not a one-size-fits-all. And so, the very first initiative we are undertaking in our Sustainable Communities initiative is to provide, thanks to the subcommittee's leadership, planning grants for local communities to be able to decide how they want to coordinate housing and transportation. This is not about us telling them. This is us providing help to them so that they can do the kind of planning and coordination, provide technical assistance. What are the best practices?

And in fact, I don't know if you were here, 25 percent of that planning money is specifically directed to smaller places to ensure that this isn't just an urban or even suburban investment, but that we are doing planning. Tom Vilsack is very eloquent about this. We have worked a lot with him and his Department.

Is how do we ensure in rural areas, whether it is main street where stores are leaving, that main street, whether it is figuring out what to do with upper floors of buildings along those main streets in small towns, whether it is connecting seniors to the services that they need, with kinds of transit that you wouldn't see in larger urban areas. A whole range of ways that we can work together and those planning grants are the key first step, funded by our 2010 budget, to be able to help local communities decide how they want to meet these challenges.

STAFFING FOR INITIATIVE

Senator BOND. Well, I think that is very important that you have a right to ask of the local communities or regional areas what their plans are, and that is something I have worked on for about 40 years. And making sure they have it all together and know what they are doing is important. And we would hope that the Federal agencies would make sure there are good plans that support the plans.

Now, how many FTEs at HUD are working on this? Are you adding people? Are you reallocating people from other areas? How many folks do you have working on that?

Secretary DONOVAN. I just asked my folks to get me the precise details. We have established an Office of Sustainable Housing and Communities. It is a small office. And the idea of that office is to coordinate, as I just talked about, with other departments that are working on this, as well as within the agency.

So, for example, where we are retrofitting public housing, what we want to make sure of is we don't have three different standards or different approaches to our multifamily programs, our public housing programs. So we are creating unified best practice standards that we would apply across the Department. And so, that is the nature of that office.

For 2010, and this was a discussion I believe we had in some significant detail with your staff on the subcommittee, we have 20 FTEs in total for 2010. And we expect for 2011 to have 23 FTEs. So it is a relatively small office, again coordinating just policy and programs across—between the departments, as well as across different silos within HUD.

Senator BOND. I know the coordination is very good. You ought to decide with DOT whether it is sustainability or livability would be helpful. If you could at least agree on a title, that would be a good—a good start.

On the FTEs, our big deal is are you dealing with the overall staff problems, making sure you have enough in FHA while you are moving people around? We know you need help, but do you have the FTEs you need?

Secretary DONOVAN. Thanks to both the investments you made in the 2009 budget, as well as the investments in 2010 and some flexibility that you gave us in 2010, one of the concerns that I had when I came in—and we have worked very collaboratively with you—is that we had created very specific restrictions across nine different pieces of HUD in terms of FTEs. And the flexibility that you have given us has allowed us to increase hiring substantially.

In FHA, we have literally hundreds of additional staff that we are bringing on to do that while trying to make sure that we are not overall increasing the size of the staff of the Department beyond what is necessary.

SECTIONS 202 AND 811 PROGRAMS

Senator BOND. Now I have—as I indicated, I have some concerns about if there is a cutback in the 2012 budget based on problems with the deficit. I would like to know how HUD plans to deal with it, and when you have put funding on hold for 202 and 811. Are you going to make sure that those programs—we will not overlook the people who are served by 202 and 811 while you push the current priorities. How are we going to make sure that those people are covered?

Secretary DONOVAN. So, first of all, I think one of the most important things to recognize is that the vast majority of housing for seniors and people with disabilities today gets produced not by 202 and 811, but by the tax credit and other funding sources.

The issue—and I will tell you very honestly, I dealt with this very directly in my prior work, both in the private and public sector. It is very, very difficult, close to impossible in some communities to develop new 202 and 811s because the program is really designed, frankly, for the 20th century, not the 21st century.

And because of the amount of funding that is available, the way that it is distributed, the rules that apply there is almost no case where a community can develop a 202 or an 811 without finding tax credits and a range of other sources to complement it. And yet, at the same time, the rules are not built so that you can combine those funding sources.

So what we are proposing, just to be very clear, is not that we eliminate the program. We believe the intent of the program is absolutely critical. But what we need to do is reform the program so that it works efficiently with today's way of producing affordable housing for seniors and people with disabilities.

There is a reform bill that is being discussed on the House side where we agree with a large number of those changes. In addition, we believe there are other steps that could be taken, for example, to link up with the health funding streams at HHS that are often necessary, like PACE, for seniors as they age in 202s. And we need to make sure that we get the program right, we believe, before we continue to build new units under 202.

Senator BOND. What I am worried about, I guess we are letting loose of the trapeze bar, and I want to see a trapeze bar there to hang onto. And the other thing is to manage, to continue the services and providing services in many of these target populations is critical.

That is why Senator Murray and I promoted the VASH program to bring the VA and HUD together because the homeless veterans are very near and dear to my heart. They have some very serious problems that cannot be fixed with housing alone. I want to make sure that we continue those services.

Certainly, you will have no argument from me on a need to clarify, consolidate, and simplify the HUD programs. That has been—that has been the thicket that every HUD Secretary I have known has found to be unmanageable. At the same time, as Senator Murray referred to it, I personally have a minimum amount of high confidence in the authorizing committees' ability to deal successfully with these legislative changes in time to ensure there is not a gap.

And we are going to have to work with you on that because anybody who looks at the legislative calendar in the United States Congress knows that even getting our appropriations bills done is going to be a challenge. And we are going to have to have some discussion because the banking committees are trying to bite off financial regulation and that one is not going to be a simple markup in 2 days on the floor, at least in the Senate. And man, there is not enough time to do it.

TRANSFORMING RENTAL ASSISTANCE

So we need to work with you on that. The TRA program, it is very optimistic. I would just ask you, what do you see as the key elements and the advantages of the TRA program over current programs?

Secretary DONOVAN. So, today, given the way particularly let us take public housing as an example operates. Because it functions with both an operating subsidy and a capital subsidy, it is essentially 100 percent Government funded. And because of that, it is almost impossible, short of HOPE VI, to create with public housing the kind of mixed income, mixed use, 21st century housing that I believe our residents deserve and that our communities deserve.

And so, fundamentally, what TRA is trying to achieve, beyond the simplification and all the benefits that come with that, is to bring public housing and our other programs into the mainstream, to stop having them be in some ways a parallel universe, if you will, from the way the rest of our housing market operates.

And if you look at whether it is tax credits or the new ways that we develop affordable housing, they have all of those benefits public housing has not been able to get. At the same time, public housing has been underinvested in because it hasn't been able to access, whether it is tax credits or, more broadly, private capital or other forms of public capital.

The fundamental reason for that is because we have this dual system of operating subsidy and capital subsidy. So what may seem deceptively simple at one level, but I think has very, very powerful benefits is not just consolidating all these programs, but shifting to a system where we have one operating stream that allows public housing to leverage private debt, mix uses, mix incomes. All of the things that we do in the best public—best affordable housing today, we can achieve by shifting from this.

And the last thing I would say is the fact that a low-income family has to make a choice between keeping their subsidy or moving, whether it is to get a job in a different community or a different neighborhood, to follow family, or for whatever reason they may choose to move, that fundamental choice that they have to make today, I believe, isn't fair. And so, one of the key areas of the program would try to change that is to say let us give families more choices for mobility as we do in certain of our programs today but, at the same time, ensure that we keep the project-based, long-term stream of funding available for that property that I know you believe, and I agree, is so important to our efforts to keep communities strong.

Senator BOND. I think when TRA was promised, was proposed—the legislation was promised this month—it is clearly a big and controversial effort, had lots of questions with it. And I think we need to have discussions with you about it and debate, I hope, sometime. I don't know when we can ever get floor debate, but have it brought up for thorough congressional debate.

So when are we going to see it, and how much legislation is needed? My staff is saying that perhaps 90 percent of it can be done by regulation. What do you see as the process? When will we see the product? When will we get to start on the process?

Secretary DONOVAN. So, first of all, let me just say I completely agree with you that this is an ambitious, large-scale effort, and I want to be clear, this will not be achieved in 1 year or one budget cycle. And so, what we have proposed is to begin it in 2011, focused on 300,000 units out of a much broader stock that is probably 10 times that size.

So we don't believe that it is achievable, I think this aligns with what you just said, that all of this cannot be done in 1 year. It is going to take some time. Having said that, we will—we have been working very closely within the Department with stakeholders, begun discussions with the authorizing committees as well about legislation.

We are committed to meeting the timeline that we laid out to get draft legislation put forward, and I would suggest that we would be happy to sit down as soon as possible with you and your staff to begin to answer any questions that you have and go through the details.

Senator BOND. Well, we want to see what needs to be done. And if you are focusing on 300,000 units, that goes back to my initial concern. All the other programs that are being zeroed out, what is going to happen to those needs in areas that are not covered by the 300,000 units?

So, I mean, there are a lot of questions, and I think we will have to—we will know the scope of the questions when we see your proposal.

So we need to have that soon, and at least in the appropriations process, we need to have that and to deal with it where we can and see what regulations need to be done, what has to be fixed legislatively or by appropriations or by regulation.

Secretary DONOVAN. Yes.

CHOICE NEIGHBORHOODS PROGRAM

Senator BOND. And the other thing, I appreciate you mentioning my old friend, HOPE VI again. How is Choice Neighborhoods better, bigger, longer, stronger an improvement, and what is going to be different about Choice Neighborhoods?

Secretary DONOVAN. So let me try and be as specific as possible in terms of some of those changes.

Senator BOND. Capsulize it, if you can.

Secretary DONOVAN. I go to places all the time and hear how great HOPE VI is. And I want to be very clear; this program is building on HOPE VI, not doing away with it in any means.

One of the constant issues I hear is we have done this wonderful HOPE VI redevelopment. But across the street is a project that is assisted with a different HUD program that we have no tool to be able to redevelop. And specifically, what I mean is our multifamily programs don't have that same option.

Or there are 10 or 20 foreclosed homes on the next block that are the real problem in that neighborhood. They are creating crime. They are bringing down values. And yet we don't have the flexibility in HOPE VI today to be able to include that kind of housing as well.

So what we want to do with Choice Neighborhoods is to say it has been so effective on public housing, let us allow it to be used for our privately owned assisted housing or for other housing in a community. And that could be combined with public housing.

In other words, the housing authority could come in and say, "We are going to do this public housing development, but we are also going to do the assisted housing across the street." We have got many examples where they are in the very same neighborhood or even across the street.

Or if the most challenging thing that you have in St. Louis or any other community is not a public housing development—and I know a number of them in St. Louis, for example, or Kansas City. But it is, in fact, a privately owned housing development that is the real problem. This would be a tool available to redevelop that housing.

So I think that, in some ways, is the most fundamental change is that it takes what has been so successful in HOPE VI and expands it to our broader program. It just doesn't make sense to me, frankly, Senator, that if simply because we fund something with a different program at HUD—and this is a little bit the theory behind TRA—that we ought to have totally different rules and programs available to them. This is trying to spread the lessons and broaden HOPE VI to other forms of housing.

Senator BOND. Is that something, what you are talking about in needing to reach out and deal with others; is this something that should be fixed? Can it be fixed by the HOME funds that are given to localities?

Secretary DONOVAN. I don't believe, fundamentally, that it can be fixed by the HOME funds. Because traditionally, the way HOME funds are used is either in moderate rehabilitation or new construction. These are much more complex, really neighborhood revitalization schemes and redevelopments. And so——

Senator BOND. We want to know how—I mean, are we wasting money on HOME. I thought that HOME was going to do that. So we have a limited pot of money available, and I want to work with you to make sure we use those dollars the best way we can.

Secretary DONOVAN. You know HOPE VI as well as anybody, and I think you know that what has been the secret of it is that it goes beyond just the bricks and mortar. HOME is a bricks and mortar program. And so, I think the fundamental difference is that whether it is HOPE VI or Choice Neighborhoods allows you to build in, whether it is a community room that has computer services available, whether it is the services that are available for literacy or other things for families, educational programs—all of those pieces that have really made HOPE VI so successful because it is about more than the bricks and mortar is something that Choice Neighborhoods would allow us to do. HOME is a bricks and mortar program.

FHA MORTGAGE REFORM

Senator BOND. As you know, I have worked long and hard to get child care centers and education centers and community centers. But when you are talking about a bunch of foreclosed houses, you have got a bricks and mortar problem in the community.

Well, anyhow, this is a lot more discussion to be had later. Let me ask a final question on FHA mortgage insurance reform. How are you dealing with the mortgage default problems, especially in light of the proposed FHA reforms?

How will the reforms impact the homeowners who are seeking help with mortgage defaults? Are these defaults primarily a GSE problem, or is FHA going to get in and start and put more taxpayer credit cards on the line explicitly rather than the implicit situation we have now?

Secretary DONOVAN. So, going forward, we clearly believe—and this is why we have proposed the legislation and the changes that we have—that there are things we need to be doing to tighten to avoid future defaults. It is why we have suspended over 170 lenders last year, to say we would no longer do business with them.

We have taken a number of steps that we are proposing legislatively to allow us to have greater powers to get rid of not just lenders, but the principles of those lenders from our programs. So we have a range of things we need to do more strongly.

What I would say, though, is if you look at what has happened over the last year, defaults in FHA have certainly risen, but they have risen much more slowly than subprime and even prime mortgages at the GSEs to the point where, today, subprime defaults are triple what we see in FHA.

So there is definitely more that we can do, but I think our full underwriting, fixed rate, no liar loan, all of the things that we have done traditionally and that we are strengthening to ensure we don't make the same mistakes that were made in the subprime movement have helped us not have the same level of defaults.

The only other thing I would say is we have the most extensive, most aggressive loss mitigation set of tools that exist. They allowed us to help about a half a million homeowners, last year, stay in their homes, despite the fact that they were struggling to make their payments.

And so, that, along with the Home Affordable Modification Program and other new options that we have introduced, I believe allow us not just to avoid future defaults, but also to ensure that existing families that are struggling with unemployment remain in their homes where possible. We are not going to stop every foreclosure, nor should we. But I think we have taken very aggressive actions to do that.

Senator BOND. I appreciate knowing about that. In Missouri, we had a very aggressive U.S. attorney who files a number of criminal indictments, and some of these are not just people who should be disbarred. But I hope where you find the requisite potential criminal intent, you refer them for criminal prosecution because some of this is shoddy, but in some instances, it is criminal.

Obviously, there is much more to discuss. But the good news is I am being advised that I am running late for a whole bunch of things that are stacked up. So we will have to let you go with thanks. We look forward to continuing to work on many of these things. We have just started the discussion.

ADDITIONAL COMMITTEE QUESTIONS

The hearing record will remain open for additional questions.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR PATTY MURRAY

AFFORDABLE HOUSING FOR SENIORS

Question. Thank you for your testimony Mr. Donovan. The Nation's shortage of affordable housing for seniors is significant. Currently, there are at least 10 seniors vying for every available section 202 unit. By 2020, an additional 730,000 senior housing units will be needed to address the growing housing needs of low-income seniors. Yet, the administration has proposed to eliminate construction funding for new 202 developments in order to redesign the 202 program. While I support efforts to reform the section 202 program, there is no doubt redesigning the program will be a lengthy process. How long does HUD propose to continue this funding freeze?

Answer. HUD intends to return back to Congress in June with a legislative proposal. In addition, HUD will be working concurrently to implement a range of administrative reforms. While the goal is to effect the reform of the program as quickly as possible, at this point it is too soon to forecast how long this implementation process will take.

Question. Why is HUD not able to work on redesigning the program while continuing to fund new projects?

Answer. HUD is currently working on developing a roadmap for reform of the section 202 and 811 programs. This reform and redesign will increase the programs' cost effectiveness. While this redesign effort is underway, given overall budgetary constraints, HUD must focus its limited resources on its core rental and operating assistance programs (including renewals for existing section 202 programs). It is these programs that can best leverage additional private and public resources.

Question. What is the administration's interim plan to address the growing demand for affordable senior housing while the redesigning process takes place?

Answer. The administration's fiscal year 2011 budget preserves critical resources for the elderly by maintaining full funding of core rental assistance programs such as section 202 operating renewals, Project Based Rental Assistance, the Public Housing Operating Fund, and Housing Choice Vouchers. In addition, new units will continue to come on line through the low-income housing tax credit program which produces approximately 10 times the number of affordable senior housing units as section 202. In addition, approximately 5,800 units of section 202 will become available to for the elderly in fiscal years 2011 and 2012 as a result of prior year funding commitments.

SUPPORTIVE HOUSING FOR THE ELDERLY ACT

Question. As you may know, Senator Schumer and I have introduced the section 202 Supportive Housing for the Elderly Act (S. 118), which would promote new construction, preservation, and conversion of section 202 housing by streamlining and simplifying administrative processes. Is it possible for HUD to make any of the suggested reforms to the section 202 program through report language or bill language included in S. 118?

Answer. HUD generally supports the direction that S. 118 takes the section 202 program. S. 118 includes facilitation of mixed finance structures, enhances preservation of existing projects, and refines the geographic allocation issues. However, a number of further items are currently being reviewed by HUD staff which are not fully addressed in S. 118. For example, we need more work to be done on building synergies with Health and Human Services and State Medicaid and Medicare programs to make sure that we bring into our section 202 projects elderly residents who can best take advantage of PACE and other Medicaid home and community based waiver programs. Staff will be looking at all of the items contained within S. 118 and can certainly work with the Congress to determine whether the reform plan can best be effected as stand alone legislation or as part of a revised S. 118 bill.

SECTION 202 SUPPORTIVE HOUSING FOR THE ELDERLY ACT

Question. Alternatively, can HUD implement any of the proposed changes administratively through the processing of applications or in the notices of funding availability (NOFAs)?

Answer. Yes. HUD anticipates implementing a wide range of administrative changes, in addition to proposing statutory changes, to affect a comprehensive reform of the section 202 program.

SECTION 202 AND LOW-INCOME HOUSING TAX CREDITS

Question. Based on your testimony, HUD will make it easier to take advantage of low-income housing tax credits (LIHTCs). While I am supportive of this effort, I want to be clear that the neediest seniors, such as those eligible for section 202 housing, may not benefit from this change given that section 202 units must be affordable to tenants at or below 30 percent of area median income, as opposed to LIHTCs, which require that housing be affordable to those at or below 60 percent of area median income. Can you expand on this initiative? Specifically: How does HUD plan to account for the housing needs of the most vulnerable seniors, such as the 202-eligible population, through increased use of LIHTCs?

Answer. As part of the overall reform vision, HUD anticipates modernizing the section 202 program to make it easier for sponsors to work with other funding sources, such as the Low-Income Housing Tax Credit program (LIHTC). This reflects the fact that the section 202 program is no longer a "one-stop shop" to capitalize and sustain a project but rather serves as the critical final piece of an overall financing structure. Layering LIHTC with section 202 funding does not reduce affordability relative to section 202 program requirements; rather it makes LIHTC work to support a lower-income population. By leveraging LIHTC, which in recent years produced 10 times as many units of low-income housing for the elderly as the section 202 program, more projects can be made financially feasible and the reach of the section 202 program can be effectively expanded.

Question. Current law allows section 202 developers to use LIHTCs in conjunction with HUD funding. How will HUD specifically make this a more streamlined and accessible process?

Answer. The level of regulatory oversight associated with section 202 is commensurate with that which would be associated with full Federal funding of the development costs of construction. Yet even today, the program is expected to leverage a range of funding sources, often including low income housing tax credits. These other sources of funds bring with them important oversight, whether through State Housing Finance Agencies or local municipal lenders or from the involvement of tax credit investors and commercial lenders. These parties provide layers of accountability which HUD should generally not need to duplicate. As part of HUD's ongoing review of the program, HUD will be looking to simplify its processing and oversight to better reflect its expected role in these kinds of projects.

LOW-INCOME HOUSING TAX CREDITS

Question. Does HUD envision using 202 and 811 project rental assistance contract (PRAC) to subsidize LIHTC units as is currently done with tenant-based section 8 assistance?

Answer. For sponsors who are able to bring other sources of funds to a project such that they don't require any capital advance funds from HUD, but otherwise are able to comply with the requirement of the section 202 or section 811 programs, HUD may consider the option of providing them with operating assistance only. Under this scenario, these projects would still serve the same populations, but at a much lower upfront cost to HUD. It's not clear at this time that this scenario would have significant utilization given the challenges sponsors generally face in identifying capital funds.

SECTION 202

Question. Lastly, I want to applaud HUDs proposed changes to make section 202 a platform for the delivery of supportive services so that seniors can age in place. However, section 202 housing must serve a varied senior population, not just frail elders that qualify for nursing home-level care. In your testimony and budget submission you mention the Program of All Inclusive Care for the Elderly (PACE). Is it HUD's intent to limit the section 202 program to seniors who are frail and/or participants in the PACE program?

Answer. HUD is working with stakeholders and its counterparts at the Department of Health and Humans Services to answer that question. It's HUD's understanding that PACE must be considered only one of a number of programs serving frail or near frail elderly in the community, particularly because PACE is only available in 30 States. Medicaid Home and Community-Based Service (HCBS) waivers is another program that has applicability to the section 202 program; HCBS waivers are found in 49 States. The section 202 program is an independent living program which does not require licensure, so it is unlikely that it would make sense for HUD to require all residents in a given building to be frail. Today, estimates suggest that 38 percent of current section 202 residents are frail or near-frail.

SELF-HELP HOUSING PROGRAM

Question. The Housing Assistance Council, as authorized by Public Law 110–246, receives funding to help support housing efforts in rural communities through the Self-Help Housing program. The HUD budget removed the funding for the Self-Help Housing program and instead merged it with the Capacity Building program in HUD. Unfortunately, the Capacity Building program as proposed by HUD is only funded at $60 million for fiscal year 2011, a decrease of $12 million from last year. I am deeply concerned about cutting funding to this program. Self-help housing and, more specifically the Housing Assistance Council have helped create affordable housing for rural communities across the country. These cuts may defer much needed resources to rural communities and limit housing options for rural residents. How is HUD going to ensure that rural communities will be able to access funds as the programs are merged together?

Answer. The Self-help Homeownership Opportunity Program (SHOP) is not proposed for merger into the Capacity Building program. In the fiscal year 2011 budget request, HUD proposed to merge SHOP into the HOME Investment Partnerships Program (HOME). Self-help housing, including activity costs for land acquisition and infrastructure improvements, is already eligible under both HOME and the Community Development Block Grant Program (CDBG). Significant amounts of HOME and CDBG funding are already available to State and local grantees to fund self-help housing opportunities for low-income households, including in rural areas. In fact, the State CDBG program provides funding exclusively to all non-metropolitan areas of the State, including rural areas, far exceeding the coverage area, and funding level, of all of the SHOP grantees combined. It is true that self-help housing will be competing with other eligible activities for State or local HOME or CDBG funding, but Housing Assistance Council and other SHOP providers should be able to make a case for a share of the funding based on their past successful performance in SHOP.

In addition, HUD has requested increased funding for a newly designed Capacity Building program totaling $60 million, $10 million more than the $50 million appropriated to the current section 4 Capacity Building program within HUD's SHOP account.

Finally, $25 million of fiscal year 2010 funding is being made available for competition in HUD's Rural Housing Innovation program specifically targeted to rural communities.

Question. How will HUD split the funding between self-help housing and the capacity building entities such as LISC and Enterprise Community Partners?

Answer. In the fiscal year 2011 budget request, the Self-help Homeownership Opportunity Program (SHOP) is proposed to be merged into the HOME Investment Partnerships Program (HOME). Self-help housing, including activity costs for land acquisition and infrastructure improvements, is already eligible under both the HOME and the Community Development Block Grant Programs (CDBG). Significant amounts of HOME and CDBG funding are available to State and local grantees to fund self-help housing opportunities for low-income households, in both urban and rural areas.

The fiscal year 2011 budget HUD has requested increased funding for a newly designed Capacity Building program totaling $60 million, $10 million more than the $50 million appropriated to the current section 4 Capacity Building program within HUD's SHOP account. These funds would be made available for competition through a Notice of Funding Availability.

Recipients will include national and regional intermediaries with local affiliates and partnerships, and consortia of intermediaries with demonstrated expertise. Funding for assistance will support organization and core skills of line staff and management so they can be partners with the administration as they implement key initiatives such as Choice Neighborhoods, Sustainable Communities, and the Catalytic Competition and work to restore the economic vitality of communities with significant needs.

QUESTIONS SUBMITTED BY SENATOR PATRICK J. LEAHY

SECTION 811

Question. The Final Rule for the HUD 811 program published in the Federal Register on September 13, 2005 section 891.809 lists a number of limitations on capital advances under that program including: (c) facilities currently owned and operated by the sponsor as housing for persons with disabilities, except with rehabilitation as defined in 24 CFR 891.105. However, recent HUD NOFAs for the 811 program essentially precludes funding applications involving such rehabilitation by stating that the refinancing of any Federal funded or assisted project or any project insured or guaranteed by a Federal agency is not permissible under section 811 and also that if the housing already serves persons with disabilities it can be rehabilitated as long as it hasn't operated as housing for persons with disabilities for longer than 1 year prior to the application deadline. Recognizing the importance of supportive housing to prevent homelessness and the fact that it is at least half as expensive to preserve existing units as to create new ones, would HUD consider allowing in the next NOFA the possibility of funding capital advances when rehabilitation is occurring as defined in 24 CFR 891.105? If not, would HUD entertain an 811 pilot in Vermont in which rehabilitation of units housing people with disabilities takes place?

Answer. Section 891.809 is in subpart F of the regulations and these regulations govern the mixed finance feature of the section 811 Program. HUD's understanding is that the intent of this mixed finance feature was to encourage the construction of additional units. The Department believes that it is important to use its limited resources to increase the supply of affordable housing for this population of very low-income households. Various policy changes for the overall program are currently under review.

SECTION 202

Question. In Vermont, as well as in other rural and urban areas of the country, section 202 housing serves a varied senior population, including a substantial number of very frail elders. In my home State we are developing a service delivery model that would layer very nicely onto HUD 202 housing and meet the wide range of needs our seniors have—needs that no single existing program can meet. In the Department's budget submission to Congress, the rational for zeroing out the 202 was program is that it needs improvement. I understand that most of the reforms to the section 202 program can be made administratively in your processing of applications or in the NOFAs. What is HUD's timeline for the internal process of reform and is it possible to finish these reforms in time for the fiscal year 2011 funding round if Congress provides funding for section 202 this year? Can we help implement any of those changes through report language or bill language included in the subcommittee's bill?

Answer. We plan to return back to Congress in June with a legislative proposal. Our proposal will be based on analysis of the section 202 program by HUD staff as well as feedback solicited from stakeholder groups. We look forward to working with Congress to determine the best way to implement these recommended changes.

QUESTIONS SUBMITTED BY SENATOR DIANNE FEINSTEIN

NEIGHBORHOOD STABILIZATION PROGRAM FUNDING DISTRIBUTION

Question. California is at the center of the home foreclosure crisis. The California metro areas of Stockton, Merced, San Bernardino and Riverside in particular have among the highest foreclosure rates in the country. And while the national annual increase in foreclosures appears to be leveling off, nearly 140,000 foreclosures were filed in California this year—one of the highest rates in the country.

It is concerning to me that some of the hardest-hit areas of the country, such as Fresno, Merced, and Stockton, have been entirely left out for funding under the Neighborhood Stabilization Program (NSP) under the American Recovery and Reinvestment Act.

On January 14, 2010 the Department announced the second round of NSP awards totaling $318 million in investment for California, yet nearly all applications submitted by projects in the Central Valley were rejected, despite a foreclosure rate of 13 percent in that area. This raises serious concerns to me that a Federal program designed to stabilize and rehabilitate the hardest-hit communities could have completely overlooked the Nation's epicenter for foreclosures.

Why are areas with the highest foreclosure rates being denied NSP funding?

Answer. The Neighborhood Stabilization Program 2 (NSP2) funds were distributed on a competitive basis as required by the Recovery Act. The Department reviewed 482 applications that requested, in aggregate, more than $15 billion, more than 7½ times the available funding. The Department established a thorough process to review applications and was ultimately able to fund 56 applications, less than 12 percent of total. Of the funded applications, 31 received less than the amount requested in order to increase the total number of applications receiving funding.

NSP2 applicants had to respond to six factors: Need in Target Geography; Demonstrated Capacity; Soundness of Approach; Leveraging of Other Funds or Removal of Substantial Negative Effects; Energy Efficiency Improvement and Sustainable Development Factors; and Neighborhood Transformation. Every applicant for NSP2 funding had to demonstrate a high level of need in order to be eligible to apply for assistance but this was only one aspect of the competition. The bottom line is that NSP2 was a competition and some grantees responded in a more comprehensive manner than others. Ultimately, HUD's review process awarded funds to the highest rated applications and need represented only one aspect of that competition.

Question. What specific measures is the Department using to determine the funding distribution for NSP?

Answer. The Neighborhood Stabilization Program 1 funding was distributed through a formula, and the criteria for that formula were identified in the Housing and Economic Recovery Act (HERA) of 2008. The criteria included: number and percent of foreclosures; number and percent of subprime mortgages; and number and percent of mortgages at risk of default.

Neighborhood Stabilization Program 2 funding was distributed through a competitive program, using 6 factors: Level of need in Target Geography; Demonstrated Capacity; Soundness of Approach; Leveraging of Other Funds or Removal of Substantial Negative Effects; Energy Efficiency Improvement and Sustainable Development Factors; and Neighborhood Transformation. Further detail on the factors can be found in the Notice of Funding Availability (NOFA) issued on May 4, 2009. This NOFA can be viewed on the HUD Web site at: http://www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/pdf/nsp2.nofa.pdf.

Question. What is main rationale for not including additional funding for this important program in the fiscal year 2011 budget?

Answer. While the Department did not request NSP funding as part of the fiscal year 2011 budget, Secretary Donovan has announced his support for an additional $2.1 billion for NSP funding to continue efforts already in place and to help address foreclosure and abandonment problems in communities that have not been reached via NSP1 or NSP2.

The administration also announced plans to reallocate funds awarded through NSP1 that have not yet been committed to specific projects in order to drive more funding to the hardest hit communities. HUD has already awarded nearly $6 billion in NSP grants to help State and local governments respond to rising foreclosures and falling home values. Nearly $4 billion funded NSP1 through the Housing and Economic Recovery Act of 2008 (HERA) and an additional $2 billion funded NSP2 through the American Recovery and Reinvestment Act of 2009 (Recovery Act). The initial NSP1 funds provided each State government with a "base allocation" of $19.6 million without regard to varying degrees of need. Eighteen months later, the Department will recapture money from communities that have not yet committed NSP1 funding, and reallocate it to city and county governments with very high foreclosure and/or vacancy rates and their jurisdiction, based on the most recent data. HUD estimates that 70 percent of the $3.9 billion in NSP1 funds would be obligated by the 18-month deadline this Fall, in September and October 2010, for a recapture of approximately $1 billion.

Through the recapturing process, HUD is working to use the resources we have already received and build on the success and lessons from NSP1 and NSP2, ideally with additional funding for a third round, to best target the recovery in hard hit areas based on their foreclosure and delinquency rates, vacancy problems and unemployment. We also want to go a step further by providing funds to help homeowners avoid foreclosure.

COMMUNITY DEVELOPMENT FUND CATALYTIC INVESTMENT COMPETITION GRANT DISTRIBUTION

Question. The new Catalytic Investment Competition Grant program proposed under the Community Development Fund in the administration's budget request would provide economic development and gap financing to implement targeted investments for neighborhood revitalization. I am encouraged to see HUD further its efforts to help communities with the greatest need and potential for growth. How would the proposed $150 million grant program take into account areas that are high-cost, such as California, to ensure they are not left out?

Answer. The Catalytic Investment Competition will use the authorities of CDBG to provide capital for high impact, innovative economic development projects and to capitalize meaningful investments for neighborhood and community revitalization. Unlike CDBG, consortia including high capacity non-governmental entities may apply along with governmental entities.

While HUD has not fully developed the competition framework, please be assured any program design will provide a level playing field for all applicants including those in high cost areas. Applicants will be required to develop a plan that includes measurable outcomes for job creation and economic activity and exhibit capacity to implement the plan. They will be encouraged to leverage other public and private community development and revitalization programs and to augment other place-based strategies, such as Choice Neighborhoods, Promise Neighborhoods, HOPE VI, and Sustainable Communities to help strengthen existing and planned investments in targeted neighborhoods to improve economic viability, extend neighborhood transformation efforts, and foster viable and sustainable communities.

SECTION 202 HOUSING FOR LOW-INCOME SENIORS

Question. The administration's budget proposes to reduce funding to support the construction of housing for very low-income elderly. The Department's section 202 housing program was funded at nearly $825 million in fiscal year 2010, but the administration has requested $274 million for fiscal year 2011. This is a cut of nearly 67 percent to a program that many elderly Californians rely on for affordable housing. How will the Department continue to offer affordable rental housing to low-income seniors despite such a major budget cut?

Answer. The $274 million requested for section 202 in fiscal year 2011 will cover the cost of project renewals only; no new production funds are being requested. These renewal funds will support the nearly 400,000 elderly residents who currently live in section 202 housing. In addition, in fiscal year 2011, HUD expects to house over 2.4 million families in public and assisted housing of which 58 percent are elderly or disabled and provide tenant based vouchers to more than 2.1 million households of which 47 percent are elderly or disabled. As well, HUD anticipates approximately 5,800 new units of section 202 will come on line during fiscal years 2011 and 2012 because of prior year funding commitments. The Department will submit a section 202/811 legislative proposal in June that will address these issues.

SELF-HELP HOME OWNERSHIP PROGRAM (SHOP) FUNDING

Question. The administration's proposed budget does not request funding for the Self-help Home Ownership Program, which helps non-profit organizations leverage funds from outside private organizations to assist home buyers.

The budget request proposes that the HOME Investment Partnerships Program could instead fund SHOP projects, yet the funding for HOME is also proposed to be cut from $1.82 billion in fiscal year 2010 to $1.64 billion in fiscal year 2011.

It is my understanding that SHOP makes revolving funds available to non-profit organizations for future land development. In many urban areas, there are local funds that work in cooperation with HOME. In small and rural communities, however, there are seldom such funds available, making SHOP particularly important for these communities.

How will the Department help support non-profit organizations that assist low income families despite eliminating the SHOP program and reducing funding for the HOME program?

Answer. HOME funds are distributed by a needs based formula and all States, including those with significant rural area, are guaranteed a minimum HOME formula allocation. By statute, HOME funding for housing programs must be used for low-income families, including those that live in rural areas. In addition to HOME funds, a significant amount of State Community Development Block Grant funding is made available to local communities that are rural in nature.

Most current affiliates of SHOP grantees (non-profit organizations) already qualify, or can easily qualify, as a Community Housing Development Opportunity (CHDOs) in the HOME program. This would make them eligible for funding for self-help home ownership activities from the 15 percent minimum set-aside of HOME funds specifically for qualified CHDOs, giving them an advantage over other groups competing for funds. In addition, CHDOs are eligible to retain proceeds from development activities, and annual funds for CHDO operating expenses. The CDBG program may also be used to create revolving loan funds at the State and local level for community development and housing activities in rural areas. The State CDBG program provides funding for these activities exclusively to jurisdictions in non-metropolitan areas.

SHOP funding is structured as direct funding to grantees for immediate use—it does not provide funding specifically for revolving loan funds. Two current SHOP grantees, the Housing Assistance Council and Habitat for Humanity, are national organizations that require their local affiliate organizations to repay 20 and 25 percent of the SHOP funds distributed to them for local self help home ownership programs back to these national organizations for deposit in their revolving loan funds. However, these loan funds are not necessarily used for self-help housing, but for a variety of other community development activities.

QUESTIONS SUBMITTED BY SENATOR FRANK R. LAUTENBERG

PUBLIC HOUSING CAPITAL FUND

Question. The President's budget request proposes a $456 million cut in the Public Housing Capital Fund. The $4 billion provided for the fund in last year's economic recovery act was meant to supplement regular appropriations, not replace them.

Given the substantial backlog of capital needs—estimated by your own agency to be as high as $24 billion—what is the justification for cutting funding that is so critical for the long-term sustainability of public housing?

Answer. The Department agrees that there is a substantial backlog of deferred capital needs in the public housing program. Given fiscal constraints, the Department cannot realistically request enough funding to solve the backlog of capital needs through annual Capital Fund appropriations. For this reason, the Department is proposing to launch a multiyear effort called Transforming Rental Assistance (TRA). This initiative will preserve HUD-funded public and assisted housing, stem the loss of affordable units, enhance housing choice for residents and streamline the administration of HUD's rental assistance programs. In 2011, the first phase of this initiative would provide $350 million to preserve approximately 300,000 units of public and assisted housing by leveraging over $7 billion in private investment.

At this point, PHAs have access to post transfers for operating purposes from Recovery Act formula funding ($3 billion), Recovery Act competitive funding ($1 billion) and Capital Funds allocated pursuant to the standard annual appropriation for 2009 ($2.2 billion). In June, the Department will post transfers for operating purposes ($2.3 billion) from the Capital Funds pursuant to the 2010 appropriation. PHAs, therefore, will have access to more Capital Funds in 2011 because of the large amount of Capital Funding made available in 2009 and 2010.

In previous years, PHAs have funded 8–11 percent of their Capital Funds to operations in order to make up for a shortfall in Operating Funds. The Department's fiscal year 2011 budget request for the Operating Fund is for 100 percent of the eligible costs. Given the higher level of funding for the Operating Fund, PHAs will be able to keep an extra 8–11 percent in the Capital Fund account rather than funding it and will, therefore, be able to address more Capital Fund needs.

Furthermore, PHAs continue to be able to obtain private financing through the Capital Fund Financing Program (CFFP) and through mixed finance transactions. PIH anticipates that PHAs will be able to borrow over $100 million in CFFP financing alone in 2011 (not including amounts leveraged in mixed finance transactions).

Ultimately the Department believes that PHAs will have their best opportunity to address the backlog in capital need through participation in the Transforming Rental Assistance (TRA) initiative. PHAs that convert properties from the public housing program to a project based contract model under TRA can expect to position those properties to take advantage of private sector financing and leveraging to address capital needs backlog in a way that is not possible under the conventional public housing program.

DRUG ELIMINATION PROGRAM

Question. Public housing authorities in New Jersey and around the country continue to face safety and security issues as a result of drugs and criminal activity. Prior to fiscal year 2002, public housing authorities were able to fund safety, security, and drug- and gang-prevention activities through the Public Housing Drug Elimination Program (PHDEP). Since that program has been eliminated, public housing authorities have struggled to find the funding they need to keep their properties free of drugs and crime. Does HUD have any plans to reinstate PHDEP? Is your agency willing to work with this subcommittee to get this program restored this year?

Answer. Safety and security of the public housing residents is part of the overall mission of the Department. Any capital improvements that improve the safety and security of public housing developments are an eligible use of the Capital Fund. However, some PHAs face greater needs stemming from unanticipated immediate needs that increase the threats to the safety and security of their residents. Emergency Capital Need in the amount of $5 million of the 2009 funding had been made available to address the needs for 2009 and $2 million of the 2010 funding is being made available to address the needs in 2010. The 2010 amount may be increased depending on the demand for funds from other types of emergencies and non-presidentially declared disasters. The Department is issuing a notice in June 2010 that defines the safety and security emergencies that will be covered by this funding and details the application process. The Department is always willing to discuss any ideas that will effectively improve the safety and security of our program recipients.

EMERGENCY CAPITAL NEEDS

Question. In both fiscal year 2009 and fiscal year 2010, Congress allocated $20 million to address the emergency capital needs of public housing authorities, including "safety and security measures necessary to address crime and drug-related activity." As of February of this year, no applications had been received for this funding, largely because HUD had not issued any notices or guidance. Last December, I sent you a letter requesting that you make this guidance available as soon as possible. In your response dated February 5, 2010, you stated that you intended to "make this information available to PHAs in the near future."

Has HUD provided public housing authorities with a formal notification of this funding?

When do you expect eligibility guidelines, especially as they relate to the safety and security portion of this funding, to be made available to public housing authorities?

Answer. Safety and security of the public housing residents is part of the overall mission of the Department. Any capital improvements that improve the safety and security of public housing developments are an eligible use of the Capital Fund. However, some PHAs face greater needs stemming from unanticipated immediate needs that increase the threats to the safety and security of their residents. Five million dollars of the 2009 funding had been made available to address the needs for 2009, and $2 million of the 2010 funding is being made available to address the needs in 2010. The 2010 amount may be increased depending on the demand for funds from other types of emergencies and non-presidentially declared disasters. The Department is issuing a notice in June 2010 that defines the safety and security emergencies that will be covered by this funding and details the application process.

SECTION 202 SUPPORTIVE HOUSING FOR THE ELDERLY

Question. The President's budget request includes a drastic cut to the section 202 Supportive Housing for the Elderly program. Although I understand the need to redesign and modernize this program, demand for section 202 housing remains high and I am concerned about the effect this proposal will have on the Nation's stock of senior housing. Why is it necessary to suspend funding in order to reauthorize and modernize section 202?

Answer. In the context of severe resource constraints, the administration's fiscal year 2011 budget targets housing investments to their most crucial and catalytic uses, primarily rental and operating assistance that best enable HUD's partners to leverage additional resources. HUD requested the suspension of sections 202 and 811 Capital Advance Grants in fiscal year 2011 in order to put both programs through a thorough review. Both programs have suffered from a lack of updating and an overhaul was needed to better target HUD's resources to more cost-effectively meet the current housing and supportive service needs of frail elderly and disabled very low-income households. The Department will submit a section 202/811 legislative proposal in June that will address these issues.

QUESTION SUBMITTED BY SENATOR SUSAN COLLINS

HOUSING FIRST

Question. Housing First is an approach to ending homelessness that centers on providing homeless people with housing quickly and then providing services as needed. Maine has one Housing First model called Logan Place, a low income housing property serving 30 chronically homeless people. A second Housing First model, Florence House, is expected to open at the end of this month and will serve 25 chronically homeless women.

Studies have shown that the Housing First model is highly effective at helping people maintain housing stability when they have a history of homelessness and disabilities. The Housing First approach does not require tenants to be sober or engage in services at the time of entry; rather, they are moved directly from the streets or emergency shelters and the services required to help them remain housed are provided to them.

An in-depth study was performed in Maine on the cost of housing people vs. their remaining homeless, which assessed 99 participants, including most of the residents at Logan Place. The study concluded that housing people cost less than allowing people to remain homeless, and services were delivered in a more cost-effective manner.

Is the administration considering the advantages of a Housing First approach to help address the growing number of homeless people?

Answer. HUD's McKinney-Vento funded Permanent Supportive Housing (PSH) program grantees are given flexibility to design programs that meet the community's needs—including PSH programs that use the Housing First model. New HEARTH Act legislation allows this flexibility to continue for PSH programs. In general, communities have moved away from offering shelter-only alternatives, into service-based interventions such as safe havens, outreach, housing first and permanent supportive housing. By encouraging Continuum of Care (CoC's) to shift from funding services to housing activities, HUD shifted millions of dollars from services funding into funding for housing activities. Persons with disabilities, including the Housing First target population of primarily chronically homeless persons, will continue to be targeted with 30 percent of annual homeless assistance awards. In the past, HUD has met and exceeded the Congressional requirement of 30 percent for permanent housing for persons with disabilities, which remains a requirement under HEARTH.

QUESTION SUBMITTED BY SENATOR THAD COCHRAN

MANUFACTURED HOUSING

Question. Mr. Secretary, manufactured housing production has dropped to an annual rate of fewer than 50,000 homes, compared to nearly 400,000 units in 1998. Can you explain why the new FHA title I program rules for manufactured housing, which were authorized by Congress in the Housing and Economic Recovery Act of 2008, have not been issued?

Answer. The new Federal Housing Administration (FHA) title I program rules for the Manufactured Home Loan Program were issued on April 14, 2009, by title I letter, TI–481.

The Housing and Economic Recovery Act of 2008 (HERA) provided for several changes to FHA programs to be initially implemented by notice in order to facilitate implementation of long-desired changes to FHA programs without having to wait for the often 12-month period it takes for a formal rule to be issued. On this basis, HUD implemented the HERA changes to FHA title I Manufactured Home Loan Program by title I letter. Although HUD implemented the new requirements by letter, HUD solicited comment on HUD's implementation of these requirements through an April 21, 2009 Federal Register publication.

HUD is currently developing the final rule, which takes into consideration the 7 public comments received in response to the April 21, 2009 solicitation of comments. HUD believed that it was prudent to ensure sufficient public comment and did not rush to codify new regulations based on the title I letter, TI–481, issued April 14, 2009. HUD believed that before codifying these requirements, it would benefit by seeing how the new requirements worked in practice, and whether clarifications or modifications would be needed before formal codification. HUD believes that it has benefitted from the year-long experience it has had in seeing how the rules in the title I letter have worked. HUD is developing the rule for codification, and will not only take into consideration the 7 public comments received, but also the experience to date of HUD and industry operating under the new requirements for the past year. However, until that rule is issued, title I Letter, TI–481, dated April 14, 2009, remains the rule implementing document.

Question. You say in your statement that "the Federal Housing Administration (FHA) has stepped up to fulfill its countercyclical roll—to temporarily provide necessary liquidity while also working to bring private capital back to credit markets", but this has not been the case for manufactured housing. Do you believe that a non-career administrator for the manufactured housing program would address this disparity?

Answer. The FHA Commissioner has taken the leadership to address this disparity by responding to an invitation from Representative Donnelly of Indiana. Both the Congressman and the Commissioner will be meeting on June 2 in Elkhart, Indiana with key lenders along with Ginnie Mae, Fannie Mae, Freddie Mac and manufacturers to identify the issues for which these parties are seeking further clarification and information regarding the complex financial problems in both the primary and secondary markets.

Question. Manufactured housing plays an important role in the housing market by providing families, often with a limited income, an opportunity for home ownership. What is HUD doing to help promote the manufactured housing marketplace, including international opportunities?

Answer. HUD has worked to highlight the home ownership and community opportunities available with manufactured housing. This has included reports to help builders understand how manufactured housing could be used in their construction efforts. It is HUD's general position that factory built construction (including manufactured, modular, and panelized) provides many opportunities and can contribute to local development activities. In addition, HUD provides Federal insurance through the FHA for loans to finance the purchase of manufactured homes.

Also as noted in the response to question No. 4, HUD is working closely with the State Department and USAID on a variety of international housing development and urban policy issues. In meeting with representatives of other governments, HUD officials will take advantage of these new opportunities to highlight the benefits of U.S. factory built housing and related construction materials and products.

Moreover, many housing products produced in the United States can be used internationally. HUD has worked with builders and manufacturers to help them understand how they might take advantage of opportunities for international sales. The manufactured housing building code (the HUD-code) is unique to the Unites States and may not be accepted in other countries. Therefore, manufacturers of HUD-code homes may elect to offer similar products produced on the same production line or produce other types of factory-built housing that can be more easily shipped such as panelized housing. In many cases, the manufactured housing production line could be used for many similar products.

Question. I understand that you will be attending the United Nations World Urban Forum. This is especially unusual as HUD seldom, if ever, plays a role in international housing issues. Nevertheless, this is an opportunity to note the potentially inexpensive cost and housing opportunities represented by manufactured housing in many parts of the world. I urge you to use this opportunity to highlight the benefits and promote the use of manufactured housing to the international audience.

Answer. HUD has engaged in international exchange programs for several decades. However, under the Obama administration, HUD has considerably expanded the scope and nature of its contacts with other governments and international organizations. The administration believes that many lessons can be learned from experience of other countries, and has seen value in these relationships. HUD is working closely with the State Department and USAID on a variety of international housing development and urban policy issues. In meeting with representatives of other governments, HUD officials will take advantage of these new opportunities to highlight the benefits of U.S. factory built housing and related construction materials and products.

Moreover, many housing products produced in the United States can be used internationally. HUD has worked with builders and manufacturers to help them understand how they might take advantage of opportunities for international sales. The manufactured housing building code (the HUD-code) is unique to the Unites States and may not be accepted in other countries. Manufacturers of HUD-code homes may elect to offer similar products produced on the same production line or produce other types of factory-built housing that can be more easily shipped such as panelized housing. In many cases, the manufactured housing production line could be used for many similar products.

Question. There have been a number of articles recently regarding the sale of thousands of manufactured housing units by FEMA into the marketplace. People have raised serious concerns about environmental and cost issues regarding these units. As the housing regulator for the Nation, what is your opinion on the potential impact on the marketplace for new manufactured units? What is HUD's role in the resale of units, especially since another Federal agency is involved? If there are environmental issues, who is looking at those issues, and who is responsible for any related decisions?

Answer. HUD has no role in GSA's resale of the temporary housing units as HUD's regulatory role is limited to new sales and not resale. HUD regulates only how the home was designed, the compliance of the home when the manufacturer provided it to the first purchaser, and the first installation of the home. A small fraction of the units FEMA is selling through GSA are HUD-code manufactured housing. These manufactured housing units were produced to the same standards as all manufactured housing and have received periodic inspections and maintenance during their use. The small size of the FEMA manufactured homes is in stark contrast with the size of most of the manufactured housing units available in the United States. It appears unlikely a home buyer interested in a larger home would purchase one of these units instead of a new manufactured home. We anticipate the FEMA manufactured homes entering the resale market will be less expensive than new units, a result of the units being used and the smaller, single wide form. This could provide to some degree, increased home ownership opportunities for families of modest means. Following Hurricane Katrina, many manufacturers in the region produced units under contract to FEMA that are now available for resale. It is reasonable to expect that local retailers would be involved in the purchase, inspection, resale and installation of the units. HUD is not involved in the safety aspects of the units being sold through GSA and these issues rest with FEMA and questions should be addressed to FEMA.

SUBCOMMITTEE RECESS

Senator BOND. The subcommittee will hold the next hearing on Thursday, March 25, at 9:30 a.m., on the Federal Housing Administration.

Thank you very much, Mr. Secretary.

Secretary DONOVAN. Thank you, Senator. And let me just recognize the great work and partnership that we have with Ken Donohue, who is our inspector general, around a lot of these fraud issues. I don't want to let the record close without recognizing his partnership.

Senator BOND. A very important additional tool that you and we have and we appreciate his good work.

Thank you.

Secretary DONOVAN. Thank you.

[Whereupon, at 11:20 a.m., Thursday, March 11, the subcommittee was recessed, to reconvene at 9:30 a.m., Thursday, March 25.]