

**DEPARTMENTS OF VETERANS AFFAIRS AND
HOUSING AND URBAN DEVELOPMENT AND
INDEPENDENT AGENCIES APPROPRIATIONS
FOR FISCAL YEAR 2005**

THURSDAY, APRIL 1, 2004

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

The subcommittee met at 10:05 a.m., in room SD-628, Dirksen Senate Office Building, Hon. Christopher S. Bond (chairman) presiding.

Present: Senators Bond and Mikulski.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

OFFICE OF THE SECRETARY

STATEMENT OF ALPHONSO JACKSON, SECRETARY

ACCOMPANIED BY:

ROY A. BERNARDI, ASSISTANT SECRETARY, COMMUNITY PLAN-
NING AND DEVELOPMENT

MICHAEL LIU, ASSISTANT SECRETARY, PUBLIC AND INDIAN HOUS-
ING

JOHN WEICHER, ASSISTANT SECRETARY FOR HOUSING—FEDERAL
HOUSING COMMISSIONER

OPENING STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. Good morning. The Senate VA/HUD Appropriations Subcommittee hearing will come to order.

We are looking forward to welcoming the newly confirmed, some 12 hours old, Secretary of HUD to be joining us. I understand he's fallen victim to the traffic. However, looking at what OMB presented for HUD, I would be surprised if there wasn't some planning on his part to miss out on it. We welcome FHA Commissioner John Weicher, Assistant Secretary for Public and Indian Housing Michael Liu, and Roy Bernardi, Assistant Secretary for Community Planning and Development, who will be answering the subcommittee's questions.

Gentlemen, we have probably more problems with this budget than any budget we have been submitted. And in this subcommittee, we get lots of bad budgets. This one, I think, may take the cake. And I think that we're going to have a very difficult time working through it. I look forward, however, to working with Secretary Jackson and all of you as we try to sort this out.

We have a vote at 11:30, so we will have to submit questions for the record. I am very concerned about HUD's Office of Congressional Relations, which failed to meet its responsibilities for this hearing. We expect the Office to be better prepared in the future.

Also, Mr. Liu, I understand you requested, over the last several days, not to attend this hearing and, instead, send a subordinate. That is not acceptable, because this is an extremely important hearing. We not only need you to answer our questions, but I hope this will be an opportunity for you to understand issues that are important to us and our constituents.

The President's budget request for HUD for fiscal year 2005 proposes some \$35.7 billion, a technical increase of \$331.8 million over fiscal year funding level of \$35.4. Unfortunately, the 2005 funding level doesn't tell the true story about the administration's request, which is distorted because of how rescission funding and FHA receipts are treated for purposes of the 2005 budget. Instead, the HUD proposed budget, as we figure it, is actually some \$1.4 billion below the amounts we appropriated for HUD programs in 2004. That's a substantial reduction, which is even more troubling in light of other administration budget shortfalls within the jurisdiction of this subcommittee. We have been shorted about \$1.2 billion in VA medical care, and the Clean Water State Revolving Fund in EPA has been cut by \$500 million, which Office of Management and Budget should know by now that Congress is not going to accept.

I know HUD has an obligation to defend the budget and policy decision, no matter how troubling. I also understand the need for the administration to make difficult funding decisions to contain and reduce the Federal budget deficit. Nevertheless, this subcommittee is facing huge challenges in funding decisions for the entire VA/HUD bill in a very tight funding year, and HUD represents one of the largest challenges.

In addition, this budget includes several substantial policy changes that would dramatically alter the direction of both Section 8 housing assistance and the FHA's single family housing mortgage insurance program, two of HUD's most important issues. These are important policy proposals that cannot be taken lightly and should not be considered in an appropriations bill without comprehensive hearings and debate. We have some significant questions about all of them, and, unfortunately, it does not look like we're going to have the luxury of the time to consider fully these issues.

We'd like to welcome now, as I said, the 12-hour-ago-confirmed Secretary of Housing and Urban Development. I know, Mr. Secretary, that unless you stayed up all night preparing, you're not prepared for this hearing, but we do welcome you. We just said what a lousy hand you've been dealt, and we will ask your associates questions on it. But there will be a lively give and take. And whenever you would like to jump in, please feel free to do so. But we've got a lot of problems that we've got to deal with.

SECTION 8 REFORM

The administration is proposing to restructure Section 8 into a new block-grant program to be administered by a public housing agency. Two fatal flaws in that proposal; namely, a lack of funding

and elimination of the requirements that Section 8 tenant-based assistance be targeted to our most needy families. The Section 8 voucher program currently requires that three quarters of all new vouchers serve extremely low-income families at or below 30 percent of their median income. These are the families with the greatest housing needs, and PHA's would no longer have the necessary funds to provide vouchers to these families, leaving them to other unsustainable rent burdens or homelessness.

In particular, Section 8 assistance would be funded at \$18.466 billion in 2005, a decrease of \$791 million from the 2004 funding level of \$19.26 billion. That's not enough funding to meet the needs of Section 8 anticipated for 2005. CBO, in its most recent budget re-estimate, determined that Section 8 will require funding of some \$19.284 billion, which means that HUD has a funding shortfall of about \$2.2 billion for Section 8 renewals and tenant protection for 2005 just to sustain the program, not add incremental vouchers. It also doesn't address other important issues, such as proposed changes and shortfalls in the Section 8 administrative fees.

I understand the administration's frustration with the Section 8 tenant-based voucher program, with its annual rescissions and poor cost projections. I assure you, we share that frustration. But I think this proposal is a poor substitute for the flaws in the program. We spent years working with HUD in making reforms to the program. In the last 2 years, making specific reforms through changes to the Section 8 account. While we continue to have problems with excess Section 8 rescissions, the program has become more successful with higher utilization rates. Unfortunately, the HUD Section 8 proposal punishes the program for its success, with the result that less families will get vouchers, and, I fear, extremely low-income families, those with the greatest housing needs, will likely get almost no assistance at all. I agree the Section 8 program may cost too much. We should reduce the administrative burden, where appropriate. But I think we should use a scalpel, not a meat cleaver.

Even more troubling, based on answers my staff received on the underlying analysis supporting the proposal, it's clear that HUD has not even done its homework on the proposal's impact on the continuing availability to the families who currently have vouchers.

HOPE VI

I continue to be troubled by the Department's decision to eliminate all funding for the HOPE VI Program. This program was designed primarily by this subcommittee to tear down the most distressed and obsolete public housing, replacing it with new mixed-income and public housing developments that not only provide good housing, but help to anchor the economic and physical redevelopment of many distressed communities. It's worked well, deserves to be funded or replaced with a program that is better equipped to address the remaining stock of distressed housing.

I'm especially concerned over the loss of the program since HUD has identified some \$20 billion or more in deferred maintenance and capital needs. These needs will only grow as existing PHA inventory deteriorates. I would note that it is always troubling to me that OMB, each year, comes back and cuts out programs like

HOPE VI, rural housing, all of the other programs that Congress has added because of the need that we see. I don't know where the disconnect is. And if CBO wants to come in and testify and tell us why these programs are bad, I'd like hear them do it. But we've made the determination, and we are continually frustrated by the lack of communication when they want to cut out programs we've found to be very helpful.

ZERO DOWN PAYMENT INITIATIVE

I'm deeply troubled by the proposed zero down payment for the FHA Homeownership Program. It poses substantial risk to the single family mortgage insurance program, because without down payments, new homeowners have no stake in their homes, no cushion to pay for any big-ticket costs such as a failed furnace or a leaky roof.

From an historical perspective, FHA was almost bankrupt in the 1980's due to defaults from housing families with high loan-to-value ratios, which also helped to tip marginal neighborhoods where FHA foreclosures helped to drive down the value of other housing in the neighborhood. Sadly, some neighborhoods are still trying to recover from those foreclosures. On the human side, families who default on their FHA mortgages ruin their credit and likely will be unable to purchase housing when homeownership is more appropriate. This new policy recommendation seems to place homeownership above all other policy goals, including the financial soundness of FHA or the appropriateness of homeownership for a family.

I could go over the items in the IG audit of FHA financial statements. Let me just summarize them to say that FHA defaults have risen. There is the 2002 actuarial study that projected the economic value of the fund at the end of 2003 would be \$27.3 billion. But now the new estimate is it'll be \$22.7 billion. That's about a \$4.6 billion gap, which raises serious questions over the need for new economic models.

In addition, FHA's share of the home-purchase loan market fell by 16½ percent in 2003, after falling by slightly over 1 percent in 2002, and 1 percent in 2001. In contrast, overall purchase loan originations by loan number went up in each of these years. This suggests there's growing deterioration in the credit quality of the FHA book of business, and FHA is essentially pricing itself into underwriting the highest-risk mortgages.

RURAL HOUSING AND ECONOMIC DEVELOPMENT

I'll raise other questions in the question period, but I also have strong objections to the elimination of the Rural Housing and Economic Development Program and the lead-abatement grant program, which is something that Senator Mikulski and I have determined is a high priority. And I can assure you, in our communities, it is a high priority.

Secretary Jackson, I look forward to working with you on reforming HUD. It's a huge task. It's a difficult responsibility. I think you have the requisite skills and expertise. HUD serves an absolutely critical role with its responsibility for providing a safety net of affordable housing for low-income and providing needed funding

that's a cornerstone for community development efforts and for making the dream of homeownership a reality. I look forward to working with you to rebuild the public confidence in HUD, and ensure the HUD's housing community development programs are meeting the affordable housing and economic development needs of our communities and families. I should say, "Harsh letter to follow," but I think we probably understand ourselves.

I'll now turn it over to Senator Mikulski.

STATEMENT OF SENATOR BARBARA A. MIKULSKI

Senator MIKULSKI. Good morning, Secretary Jackson, and congratulations on your confirmation. And, along with Senator Bond, I look forward to working with you.

I want to associate myself with the issues raised by the Chairman. They are identical to the issues that I share about the challenges that we see in this year's HUD budget request. I, too, want to reiterate many of my own particular concerns. We note that the budget request is \$31.3 billion. But overall HUD spending is cut by 3 percent since last year's levels. This could mean less affordable housing, more rundown public housing, more lead-paint-poisoned children, and more blight and deterioration in our communities.

HOPE VI

I'm disappointed that HUD has once again proposed to eliminate HOPE VI. I created HOPE VI, on a bipartisan basis 11 years ago, to address the crisis in public housing. Public housing was decrepit, it was distressed. Residents were living in zip codes of poverty, and public housing had become a way of life, not a way to a better life. We wanted to get the Federal Government out of the slum-landlord business and into the empowerment business. That was the purpose of HOPE VI. And we can go over many of the accomplishments of HOPE VI. We need to look at how we can sustain HOPE VI now and look ahead to what a new HOPE VI needs to be in the future. I believe HOPE VI does need to be refreshed and reformed, but certainly this year, we believe, to sustain it should be one of our principles in the HUD budget.

Last year, with the cooperation of the chairman, we asked the Urban Institute to give us the lessons learned from HOPE VI, what were the best practices, how we could replicate the successes, and also, what were the areas of reform that needed to be done. They have submitted a report, and we will be looking forward to discussions with not only how we can sustain the program this year and get best value for communities, as well as taxpayers, but also look ahead to the future.

AFFORDABLE HOUSING

The other area that puzzles me is the lack of resources for creating affordable housing. Senator Bond and I have long supported new production of affordable housing. Investments in housing is an investment in the American economy. When you build a house here, it's built here; it's not on a slow boat to China, a fast track to Mexico, a dial 1-800-somewhere; it is right here in the United States. We know working families are squeezed and stressed.

Housing in the Baltimore/Washington Corridor is so hot that an Anne Arundel County Police Department official had to move to Pennsylvania for what he thought was affordable housing. Well, this is unacceptable. We need to look at not only how are we helping the poor, but how are we helping the middle class—the firefighter, the police officer, the teacher, the call-center person that we want to keep here. We need to be able to do this and look at how we can increase production.

CAPITAL FUND/OPERATING FUND

We're very concerned, too, though, in terms of our poorer citizens, the cuts in the public housing operating and capital budget. We believe that this will not only continue to cause greater stresses on local governments' budgets, but on the poor themselves.

LEAD-BASED PAINT

In addition to this, I'm troubled by the elimination of the lead-paint elimination program. Cleaning up lead paint has triple value. First of all, it helps children. It makes them safer. It also helps them be smarter. The Johns Hopkins people who are leaders in this tell me that lead paint causes such severe neurological damage, learning disabilities, and lowered IQ's that the very presence of lead paint in a community guarantees that no one from that community will be able to move up and take advantage of an opportunity ladder in our country. We need to be able to do something about it.

PROPERTY FLIPPING

A success story that we've had in working with your predecessor, Secretary Martinez, was in dealing with flipping and predatory lending, and we want to thank HUD for all of its cooperation and its investment and expertise, technical assistance, and real reform. Flipping is now down 82 percent in the city of Baltimore, from the time when both the taxpayer and the poor were being gouged. Crooked investors were buying up FHA foreclosed property, making cosmetic repairs, working with scum appraisers and lenders. Well, thanks to working together, we've changed that. But right now what we're looking at is, what are some of the other issues that we can do? Even though flipping is down, predatory lending still lingers in the sub-prime market.

FHA DEFAULTS

And also what we're concerned about is additional issues with FHA. We're so alarmed that the defaults in FHA-insured properties have increased 31 percent. We need to know: why is this happening? Is it because of the economy? Is it because people are trapped in predatory loans? What's the real reason here?

SINGLE FAMILY PROPERTY DISPOSITION

HUD must also be in the neighborhood business. Homeownership is good, but it has to be sustainable. The worst thing that you can say in a neighborhood is, "Oh, my God, we've got a HUD house." A HUD house is where somebody has been foreclosed, it's now in

HUD hands, and it begins to deteriorate, and it creates this economic tipping that Senator Bond has talked about. So we have questions related to the single family disposition.

FHA MULTI-FAMILY DWELLINGS

Then there's another issue, of FHA apartment buildings. I am very concerned that in many of our communities, particularly close to the cities, like in my own hometown, the inner-beltway communities, that FHA apartment buildings have become public housing by proxy. They have landlords who take large amounts of Section 8 vouchers. The apartment building itself becomes all Section 8. They then skimp on repairs, they skimp on maintenance, but they sure don't skimp on taking the subsidy. We have terrible problems in many of our apartments here, and we've dealt with this with both Secretary Cuomo and Secretary Martinez. There was one in eastern Baltimore County that was not well maintained: rodent infestation, crime rampant, and rundown conditions. It was a blight on the community, and essentially we were subsidizing all the aspects of a slum landlord. These cannot be tolerated.

Now, we've worked on that together, and we want to thank HUD for their cooperation. But we have to make sure that whatever we're paying for, we're not subsidizing slums, and that we are in the empowerment business; we're in the opportunity business. And through what we do to help people help themselves, we're really also creating a stronger economy.

So we look forward to discussing these issues with you. And I now am happy to yield the floor.

Senator BOND. Thank you very much, Senator Mikulski.

I'd like to welcome Secretary Jackson and call on him for any brief comments he wants to make. I understand you have a prior commitment, and you have to leave at 11:00, and we understand that. We'll have plenty of work for you in the questions for the record, so while you leave, just know that we won't forget you.

Secretary JACKSON. Thank you.

Senator BOND. Again, welcome, Mr. Secretary.

STATEMENT OF ALPHONSO JACKSON

Secretary JACKSON. Mr. Chairman and the Ranking Member, let me apologize in advance for leaving. It will probably be about 10 minutes to 11:00, Mr. Chairman.

But let me say this, that last night I did find that I was confirmed by the Senate, and I would like to thank both of you all for the work that you all did to make the confirmation come to fruition.

And, as Secretary, I think that Chairman Bond has worked with me, and Senator Mikulski, we've had conversations over the last month, I am very sensitive to the issues that you have raised, and we look forward to work with you to try to resolve these issues.

I guess I come with somewhat of a different background, in the sense that I was fortunate to have ran three major housing authorities, so many of the issues that you have brought forth today are of very much concern of this Department. I don't ever say "my," because I think "my" is almost like "I." It becomes the "I" syndrome. I think that HUD, this committee, and the Senators can

work together to find valid solutions to try to resolve many of these problems.

Lastly, I would say this, that we have two assistant secretaries that will be addressing your issues today. Please feel free to call me. I am clearly, as the Secretary, at your disposal to come and discuss with you, and hopefully sit down and resolve many of the issues that we have today.

I do believe, especially with my encounter with Senator Bond and my short encounter with Senator Mikulski, that our philosophical viewpoints are the same, that clearly HUD's mission is to address the needs of low- and moderate-income persons, and to address those needs sufficient enough that they might have the same quality of life that most of the people in this room have.

Thank you.

Senator BOND. Thank you very much, Mr. Secretary.

And I would say only that I have had a great opportunity to work with the Secretary in his prior life, and my prior life, and I do know that he has a strong commitment. And I'm sure that all of the leaders of HUD do. We've got some real differences on how to get there.

I believe Mr. Bernardi is going to lead off. Is that correct?

Mr. BERNARDI. Yes, Senator.

Senator BOND. I thank you. If you would proceed, and introduce your colleagues, as needed.

STATEMENT OF ROY A. BERNARDI

Mr. BERNARDI. Thank you.

Chairman Bond and Ranking Member Mikulski, thank you for the invitation this morning to outline our fiscal year 2005 budget, a budget that's presented by President Bush and the Department of Housing and Urban Development. And I'm also pleased to be joined by my colleagues, to my left, Commissioner Weicher, and Assistant Secretary Liu, to my right.

To ensure there's appropriate time for questions from the Committee, I think I'll focus just on some of the statements of HUD's key priorities and some of the new initiatives that we're proposing. And I ask that I be allowed to submit my full statement for the record, sir.

Senator BOND. We'll be happy to accept all of your statements for the record, and we appreciate your summarizing from them.

Mr. BERNARDI. Thank you.

As you indicated, the programs funded with a \$31.3 billion budget will create new opportunities for those who seek affordable housing and the American dream of homeownership while generating stability and prosperity for our communities. The key priorities that address this are central to the President's plan to help make America a more secure, more prosperous, and more hopeful country. Housing, of course, is vital to our national prosperity, and remains the lynchpin of our economy. The housing market generated robust activity throughout the 2001 recession. And, today, housing continues to fuel the ongoing economic recovery.

Homeownership last year reached an all-time high of 68.6 percent, and fourth-quarter 2003 statistics reveal that, for the very first time, a majority of minority households owns a home of their

own. HUD's 2005 budget will empower our Department to build on these successes as we seek to increase homeownership, to promote decent and affordable housing free from discrimination, encourage the participation of faith-based and community organization in HUD's programs, and embrace the highest standards of ethics, management, and accountability.

Let me first discuss homeownership. In June of 2002, President Bush announced an aggressive plan to increase the number of minority homeowners by at least 5½ million by the end of the decade. More than 1½ million new minority homeowners have been created in the United States since the initiative was announced.

HUD is proposing several new or expanded initiatives to continue to increase overall homeownership, while targeting assistance to help more minority families experience the economic and social benefits of owning a home of their own.

AMERICAN DREAM DOWNPAYMENT

As a first step, HUD proposes to fund the American Dream Downpayment Initiative at \$200 million in the coming fiscal year. The Congress showed great leadership in enacting the President's American Dream proposal last year. By fully funding the 2005 initiative, we will help 40,000 families across the country have the opportunity to come over that biggest hurdle, and that's downpayment and closing costs, to own a home of their own.

ZERO DOWNPAYMENT INITIATIVE

The administration is proposing an exciting piece of legislation that would create a new mortgage product targeted to first-time home buyers and that's the Zero Downpayment Program. The Zero Downpayment Mortgage Program would allow consumers to qualify for FHA loans without having to come up with the upfront cash for downpayment and closing costs. And we estimate that that will help 150,000 families a year purchase a home.

Studies show that we can further boost homeownership by helping families learn about the loan products and services that are available to them, and how to avoid abusive lenders. So, therefore, our 2005 budget provides a record \$45 million to educate future homeowners.

To promote the production of affordable single family homes in areas where such housing is scarce, the administration is proposing a tax credit of up to 50 percent of the cost of construction for constructing a new home or rehabilitating an existing home.

SHOP

Our request of \$65 million for the Self-Help Homeownership Opportunity Program, our SHOP Program, was more than double the funding SHOP received in 2004, and that would help produce some 5,200 new homes for very low-income families. And Congress Builds America was participating last week here in Washington, and I had the opportunity to join with some Senators and Members of Congress, and to see firsthand how those dollars are used through sweat equity to give a low-income individual an opportunity to own his or her own home.

SECTION 8 REFORMS

While boosting homeownership, HUD's proposed budget also promotes the production and accessibility of affordable housing for families and individuals who rent. Three major rental assistance programs collectively help approximately 4½ million households nationwide. Our major program, as you indicated, is Section 8, which provides both tenant-based funding through the Housing Choice Voucher Program, in the Office of Public and Indian Housing, and project-based rental assistance through HUD's Office of Housing. The administration is proposing significant reform of the Housing Choice Voucher Program. We need to make it more effective, more efficient, and better able to meet the needs of the low-income families that depend on it.

Today, the Section 8 program lacks incentives for families to transition out of the program and to begin living independent lives. In addition, the program is unsustainable at current growth levels. Pre-voucher costs have increased at the alarming rate of 23 percent in just the last 2 years.

The administration's new Flexible Voucher Program will serve at least as many Americans as the 1.9 million families currently served through the Housing Choice Voucher Program. More importantly, our proposed reforms will help families move out of assisted housing and into self-sufficiency.

HOME

The HOME program is a very key initiative for addressing the shortage of affordable housing in America. In the 2005 budget, the proposed total is \$2.1 billion, which includes the \$200 million for the American Dream Downpayment Initiative that I mentioned earlier.

CDBG

HUD is committed to preserving America's cities as vibrant hubs of commerce, and making urban and rural communities better places to live, work, and raise a family. The 2005 budget provides States and localities with the tools they can use to improve economic health and to promote community development. Perhaps the greatest strength of these economic development tools, which includes the highly successful Community Development Block Grant Program, is the way that they encourage local decision-making to address developing priorities, having provided over \$104 billion over the last 30 years for the cities, counties, and States, and non-entitlement communities to do the things that are necessary for a better quality of life.

Through its budget, HUD will strengthen its efforts to promote the Nation's most vulnerable, those individuals and families who truly need government assistance. The budget funds services benefiting adults and children from low-income families, the elderly, those with physical and mental disabilities, victims of predatory lending, families living in housing contaminated by lead-based paint hazards, and persons living with HIV/AIDS.

SAMARITAN INITIATIVE

The administration will continue to work to meet the challenges of homelessness that confront many American cities. The President has made an unprecedented administration wide commitment to eliminating chronic homelessness. This commitment is reflected in our budget request through proposals such as the Samaritan Initiative, which will provide additional housing options and services for homeless people, especially those that are chronically homeless.

Finally, Mr. Chairman, our budget creates new opportunities to improve HUD's performance in its critically needed housing and community development programs. We know that we have work to do there. As Secretary Jackson indicated, we look forward to working on doing that together with you. I know how important that is to this committee. We share your concerns. We continue to make progress, and this will remain a top priority.

PREPARED STATEMENT

I want to thank you both, and all the Members of the committee, for your efforts. We understand that you have many questions. Secretaries Liu and Weicher and myself will be happy to try to answer those. And we know that we'll have many more fruitful meetings in the future. And thank you for all that you do.

[The statement follows:]

PREPARED STATEMENT OF ROY A. BERNARDI

Chairman Bond, Ranking Member Mikulski, distinguished members of the committee, the programs funded within the \$31.3 billion HUD budget will create new opportunities for those who seek affordable housing and the American Dream of homeownership, while generating stability and prosperity for our communities. The key priorities it addresses are central to the President's plan to help make America a more secure, more prosperous, and more hopeful country.

Housing, of course, is central to our national prosperity and remains the lynchpin of our economy. The housing market generated robust activity throughout the 2001 recession, and today, housing continues to fuel the ongoing economic recovery. Bolstered by historically low interest rates, home sales and new housing construction have repeatedly outperformed expectations. Homeownership last year reached an all-time high of 68.3 percent, and fourth quarter 2003 statistics revealed that for the first time, a majority of minority households own a home of their own.

The administration's fiscal year 2005 budget request for HUD will empower the Department to build on these successes, as we seek to increase homeownership through the American Dream Downpayment Initiative and two new mortgage products, promote decent affordable housing through the newly proposed Flexible Voucher Program, end chronic homelessness, encourage the participation of faith-based and community organizations in HUD grant programs, and embrace the highest standards of ethics, management, and accountability.

INCREASING HOMEOWNERSHIP OPPORTUNITIES

Americans place a high value on homeownership because of its benefits to families, communities, and the Nation as a whole are so profound.

Homeownership creates community stakeholders who tend to be active in charities, churches, and neighborhood activities. Homeownership inspires civic responsibility, and owners are more likely to vote and get involved with local issues. Homeownership offers children a stable living environment that influences their personal development in many positive, measurable ways—at home and in school.

Homeownership's potential to create wealth is impressive, too. For the vast majority of families, the purchase of a home represents the path to prosperity. A home is the largest purchase most Americans will ever make—a tangible asset that builds equity, credit health, borrowing power, and overall wealth.

Due in part to a robust housing economy and Bush Administration budget initiatives focused on promoting homeownership, the homeownership rate was higher in

2003 than at any time in this Nation's history and, as I said earlier, a majority of minority households are homeowners for the first time. That fact, however, masks a deep "homeownership gap" between non-Hispanic whites and minorities; while the homeownership rate for non-Hispanic whites is nearly 76 percent; it is slightly above 50 percent for African-Americans and Hispanics, and 55 percent for Native Americans.

The administration is focused on giving more Americans the opportunity to own their own homes, including minority families. In June 2002, President Bush announced an aggressive homeownership agenda to remove the barriers that block American families from achieving homeownership, in the hope of creating at least 5.5 million new minority homeowners by the end of this decade. The administration's homeownership agenda is dismantling the financial barriers to homeownership by providing down payment assistance, increasing the supply of affordable homes, increasing support for homeownership education programs, and simplifying the homebuying process. More than 1.53 million new minority homeowners have been created in the United States since the initiative was announced.

Through "America's Homeownership Challenge," the President called on the real estate and mortgage finance industries to take concrete steps to tear down the barriers to homeownership. In response, HUD created the Blueprint for the American Dream Partnership, an unprecedented public/private initiative that harnesses the resources of the Federal Government with those of the housing industry to accomplish the President's goal.

Additionally, we propose several new or expanded initiatives in fiscal year 2005 to continue the increase in overall homeownership, which will help improve minority homeownership rates.

As a first step, the administration proposes to fund the American Dream Downpayment Initiative at \$200 million in fiscal year 2005. President Bush signed the American Dream Downpayment Act into law on December 16, 2003, creating homeownership opportunities for thousands of Americans who had been unable to cross the most significant obstacle to homeownership: high downpayments and closing costs. The Initiative will help approximately 40,000 low-income families with the downpayment on their first home.

The administration is proposing a new mortgage insurance product to help first-time homebuyers purchase a home by allowing zero downpayment loans. Currently, the Federal Housing Administration (FHA) requires a minimum downpayment of 3 percent. To cover the higher risk involved, premiums will be increased in the short term for these borrowers. This program will be implemented at no cost to the government or the American taxpayer. This new Zero Downpayment program is expected to serve 150,000 families per year, generating about \$19 billion in endorsements.

The administration is also proposing a new sub-prime loan product called Payment Incentives to offer FHA insurance to families that, due to poor credit, would be served either by the private market at a higher cost or not at all. Borrowers would be offered FHA loan insurance under this new initiative that will allow them to maintain their home or to purchase a new home. The new Mutual Mortgage Insurance (MMI) mortgage loan program is expected to serve 60,000 families per year, and generate an additional \$7.9 billion in endorsements.

Helping families learn about the loan products and services available to them and how to identify and avoid predatory lending practices is critical to increasing homeownership. Counseling has proven to be an extremely important element in both the purchase of a home and in helping homeowners keep their homes in times of financial stress. The Fiscal Year 2005 Budget will provide a record \$45 million to support 550,000 families with home purchase and homeownership counseling and about 250,000 families with rental counseling. Counseling would be required for all families buying homes through the Zero Downpayment insurance program.

A new proposal for fiscal year 2005—the Flexible Voucher Program—will provide new flexibility to Public Housing Authorities (PHA's) by allowing them to offer downpayment assistance or monthly homeownership subsidies to families. In addition, through the Flexible Voucher Program, the Department will award performance-based bonuses to PHA's that participate in homeownership activities. The Flexible Voucher Program proposal calls for funding the Housing Choice program as a flexible voucher grant, giving a set sum of money to public housing authorities (PHA's), rather than promising to fund a certain number of units. Using a dollar-based approach rather than a unit-based approach, combined with performance measures, will give incentives to PHA's to streamline administrative costs and provide more housing opportunities for the money they receive. Additionally, incentives will be provided to PHA's to encourage work and to emphasize vouchers as a bridge to self-sufficiency, not an entitlement or an ongoing handout for housing needs.

The Self-Help Homeownership Opportunity Program (SHOP) provides grants to national and regional non-profit organizations to subsidize the costs of land acquisition and infrastructure improvements. Homebuyers must contribute significant amounts of sweat equity or volunteer labor to the construction or rehabilitation of the property. The fiscal year 2005 budget request of \$65 million more than doubles the funding received in 2004, reflecting President Bush's continuing commitment to self-help housing organizations such as Habitat for Humanity. These funds will help produce approximately 5,200 new homes nationwide for very low-income families.

To promote the production of affordable single-family homes in areas where such housing is scarce—and to help revitalize distressed communities—a tax credit of up to 50 percent of the cost of constructing a new home or rehabilitating an existing home would be provided. Eligibility for this new tax credit would be limited to homes that are affordable to lower-income households (purchasers whose incomes are below 80 percent of local median income).

The HOME Investment Partnerships program plays a key role in addressing the shortage of affordable housing in America. In fiscal year 2005, a total of \$2.1 billion—which includes \$200 million for the American Dream Downpayment Initiative—is being proposed for participating jurisdictions (States and local governments) to expand the Nation's supply of affordable housing. Participating jurisdictions have substantial local discretion to determine how to spend these funds. In addition to homeownership assistance, HOME funds can be used to help renters, new homebuyers, or existing homeowners through rehabilitation of substandard housing, acquisition of standard housing, new construction, or tenant-based rental assistance. To date, HOME grantees have committed funds to provide homebuyer assistance to more than 294,000 low-income households. Based on historical trends, 36 percent of HOME funds will be used for new construction, 47 percent for rehabilitation, 14 percent for acquisition, and 3 percent for rental assistance.

Through its mortgage-backed securities program, the Government National Mortgage Association—or Ginnie Mae—helps to ensure that mortgage funds are available for low- and moderate-income families served by FHA and other government programs such as those under the Department of Veterans Affairs and the Rural Housing Service of the Department of Agriculture. The fiscal year 2005 budget requests \$200 billion in new loan guarantee limitations.

During fiscal year 2003, Ginnie Mae marked its 35th anniversary and guaranteed a record \$215.8 billion in mortgage-backed securities. Since its inception in 1968, Ginnie Mae has guaranteed more than \$2 trillion in mortgage-backed securities and helped more than 27 million families gain access to affordable housing or lower mortgage costs. HUD's role in the secondary mortgage market provides an important public benefit to Americans seeking to fulfill their dream of homeownership.

The administration has proposed broad reform of the supervisory system for Government-sponsored enterprises (GSE's) in the housing market. As part of this reform, the administration has proposed that HUD have the ability to set an enforceable goal encouraging the purchase of first-time homebuyer mortgages. While part of their charter, the GSE's significantly lag the market for all first-time homebuyers regardless of race or ethnicity. This portion of the reform is designed to ensure that Fannie Mae and Freddie Mac lead, not lag behind, the market.

In addition, the Fiscal Year 2005 Budget would assess GSE's an additional \$6.25 million for the expected cost of the HUD Secretary's responsibilities under this Act and amendments as outlined in recent Administration proposals. These responsibilities include establishing and enforcing affordable housing goals for GSE's, ensuring GSE compliance with Fair Housing laws, and providing consultation to the safety and soundness regulator on the GSE's' new activities.

HUD has taken bold steps to comprehensively reform the homebuying process and make it far less complicated and less expensive for consumers. New disclosure requirements proposed by the administration under the Real Estate Settlement Procedures Act (RESPA) call for full, upfront disclosure and explanation of all fees that buyers pay at settlement, making it clear to the borrower what options are available for financing a home and what they might cost. They also facilitate industry packages with a guaranteed price. This will make it easier for consumers to shop for mortgages. By empowering the consumer, this competition is expected to reduce the average initial cost of buying a home by \$700.

HUD's new regulations would expand homeownership by making the homebuying process less complicated, the paperwork less demanding, and the mortgage process less expensive. The Department issued a proposed rule covering RESPA reform in fiscal year 2002 and anticipates a final rule in fiscal year 2004.

The Fiscal Year 2005 Budget supports five HUD programs that help to promote homeownership in Native American and Hawaiian communities.

Native American Housing Block Grants (NAHBG) provide \$647 million in funding to federally-recognized tribes and to tribally-designated housing entities for a wide variety of affordable housing activities. Grants are awarded on a formula basis that was established through negotiated rulemaking with the tribes. The NAHBG program allows funds to be used to develop new housing units to meet critical shortages in housing. Other uses include housing assistance to modernize and maintain existing units; housing services, including direct tenant rental subsidy; crime prevention; administration of the units; and certain model activities.

The Title VI Federal Guarantees for Tribal Housing program provides guaranteed loans to recipients of the Native American Housing Block Grant who need additional funds to engage in affordable housing activities. The Department's budget proposes to continue funding this program at last year's level, which will provide \$17.9 million in loan guarantee authority.

The Indian Housing Loan Guarantee (Section 184) program helps tribal members and their families to access private mortgage financing for the purchase, construction, or rehabilitation of single-family homes. The program guarantees payments to lenders in the event of default. In fiscal year 2005, \$1 million is requested in credit subsidy for 100 percent Federal guarantees of approximately \$29 million in private loans.

Under the Native Hawaiian Home Loan Guarantee Fund (Section 184A) program, loan guarantees will be used primarily to secure private financing to purchase, construct, or rehabilitate single-family homes on Hawaiian Home Lands. This makes possible the financing of construction loans and home mortgages by private financial institutions that would otherwise not be possible due to the unique status of Hawaiian Home Lands. The Fiscal Year 2005 Budget will provide \$1 million in credit subsidy to secure approximately \$37.4 million in private loans.

Modeled after the NAHBG, the Native Hawaiian Housing Block Grant program recognizes the documented housing needs of native Hawaiians who are eligible to reside on, or who already live on, Hawaiian Home Lands. Native Hawaiians experience the worst housing conditions in the State and constitute nearly 30 percent of the homeless population. The Fiscal Year 2005 Budget will provide \$9.5 million. Grant funds will be awarded to the Department of Hawaiian Home Lands and may be used to support the acquisition, new construction, reconstruction, and rehabilitation of affordable housing. Activities include real property acquisition, demolition, financing, and development of utilities and utility services, as well as administration and planning, housing management services, crime prevention, and safety activities.

PROMOTE DECENT AFFORDABLE HOUSING

The Fiscal Year 2005 Budget promotes the production and accessibility of affordable housing for families and individuals who rent. This is achieved, in part, by providing States and localities new flexibility to respond to local needs.

HUD has three major rental assistance programs that collectively provide rental subsidies to approximately 4.5 million households nationwide. The major vehicle for providing rental subsidies is the Section 8 program, which is authorized in Section 8 of the U.S. Housing Act of 1937. Under this program, HUD provides subsidies to individuals (tenant-based) who seek rental housing from qualified and approved owners, and also provides subsidies directly to private property owners who set aside some or all of their units for low-income families (project-based). Currently, HUD subsidizes operation, maintenance, and capital improvement of 1.2 million public housing units. In total, these programs will provide approximately \$23.2 billion in new funds each year to support rental costs for low-income individuals and families; total rental assistance accounts for approximately 74 percent of the total budget for the Department in fiscal year 2005.

The Fiscal Year 2005 Budget continues to fund Section 8 tenant-based and project-based rental assistance through the Housing Certificate Fund. In addition, public housing is subsidized through the Public Housing Operating Fund and the Public Housing Capital Fund.

HUD also helps to provide affordable rental housing through the HOME program, the Native American Housing Block Grant, FHA mortgage insurance, and the Community Development Block Grant (CDBG) program. In addition, HUD meets the specialized housing needs of the elderly and individuals with disabilities through grants for the development and operation of supportive housing projects for these target populations.

The Budget includes a new Flexible Voucher Program (FVP) that would replace the Housing Choice Voucher Program and improve the delivery of rental and homeownership subsidies for low-income families. The current system fails to support families making the transition from public assistance to self-reliance and work, and

in doing so reduces the number of families that could be helped for a given amount of money. Under the reform, the Voucher program would be a means for families to transition to a better life, and more of them will be helped. The ease of administration for HUD and PHA's is the means to that policy end, and a bonus for doing the right thing for families.

Some of the key features of the new FVP include greater PHA discretion in meeting local housing needs and serving more families, steady and predictable funding levels, and rewards for PHA's that are good managers. HUD will also provide performance-based incentives to maximize the benefits of available funds and will hold PHA's accountable for poor performance. High-performing PHA's that meet national objectives, such as increasing the number of participants that use the voucher assistance on a transitional (not permanent) basis, increasing homeownership, and efficiently assisting families would be eligible for performance and incentive bonuses.

The FVP will simplify program requirements and avoid the "one size fits all" program design. The FVP provides local and State PHA's with greater administrative flexibility to meet the overall program objective of providing temporary and transitional housing assistance for low-income families. As is current practice, the FVP will be administered by PHA's. The FVP would include administrative costs as part of the total grant.

For fiscal year 2005, Project Based Rental Assistance will continue to provide funding for renewals of expiring project-based rental assistance contracts under Section 8, including amounts necessary to maintain performance-based contract administrators. In addition to new appropriations, funds existing in this account from prior-year balances and from recaptures will augment the amount available to meet amendment requirements for on-going contracts that have depleted their funding.

It is anticipated that approximately 896,000 project-based units under rental assistance will require renewal in fiscal year 2005, an increase of about 25,000 units from the current fiscal year. This continues the upward trend stemming from first-time expirations in addition to contracts already under the annual renewal cycle.

Public Housing is the other major form of assistance that HUD provides to the Nation's low-income population. In fiscal year 2005, HUD anticipates that there will be approximately 1.2 million public housing units occupied by tenants. These units are under the direct management of approximately 3,100 PHA's. Tenants pay 30 percent of their income for rent and utilities, and HUD subsidies cover much of the remaining cost.

HUD is committed to ensuring that the existing public housing stock is either maintained in good condition or is demolished. Maintenance is achieved through the subsidy to PHA's for both operating expenses and capital needs. Through its regulatory authority, HUD will ensure that housing that is no longer viable will be removed from the inventory. It will encourage voluntary removal of decaying units when it makes economic sense to do so. Many of these decisions will be made at the local level, and HUD will work with PHA's to allow greater local decision-making.

The formula distribution of Public Housing Operating Funds takes into account the size, location, age of public housing stock, occupancy, and other factors intended to reflect the costs of operating a well-managed public housing development. In fiscal year 2005, the Department's budget provides approximately \$3.6 billion in funding for the Public Housing Operating Fund.

This Public Housing Capital Fund program provides formula grants to PHA's for major repairs and modernization of units. The fiscal year 2005 budget will provide \$2.7 billion in this account. This amount is sufficient to meet new capital improvement needs in fiscal year 2005.

Of the funds made available, up to \$50 million may be maintained in the Capital Fund for natural disasters and emergencies. Up to \$30 million can be used for demolition grants—to accelerate the demolition of thousands of public housing units that have been approved for demolition but remain standing. Also in fiscal year 2005, up to \$55 million will be available for the Resident Opportunity and Self-Sufficiency (ROSS) program, which provides supportive services and assists residents in becoming economically self-sufficient.

HUD will introduce a demonstration program in 2005 designed to improve public housing. The Freedom to House Initiative will maximize the ability of local PHA's to make decisions affecting their tenants, while simultaneously serving essentially the same numbers of low-income families. It will grant to participating demonstration PHA's the ability to combine the use of capital and operating funds, to set locally determined rent structures, and to free themselves from many of the administratively burdensome requirements of Federal reporting. This demonstration will also allow HUD and PHA's to shift to an asset-based management practice.

HUD's Moving to Work Program has shown that residents and PHA's have benefited from increased local flexibility. These PHA's are convinced that their reforms have encouraged residents to seek work, work more hours, and pursue opportunities to increase their incomes. Freedom to House will continue this experiment in an environment that will allow for measurement and comparative evaluation.

Up to 50 PHA's will be identified to participate in the demonstration, while up to 50 others will serve as a control group following current public housing laws and regulations. Annual assessment of the PHA's will be based on parameters of financial health and physical safety and soundness. Performance assessment results and other pertinent data will be provided on an annual basis and will provide policymakers with the ability to review current practices against increased PHA flexibility in order to guide future policy decisions.

HUD will also continue to promote affordable rental housing through FHA's multifamily mortgage insurance programs. In fiscal year 2005, FHA will reduce the annual mortgage insurance premiums on its largest apartment new construction program, Section 221(d)(4), for the third year in a row—from 50 basis points in fiscal year 2004 to 45 basis points in fiscal year 2005. This is the lowest premium that FHA has ever charged for multifamily insurance, and we are able to do so because the program is being run on a financially sound and prudent basis. With this reduction, the Department estimates that it will insure \$3.1 billion in apartment development loans through this program in fiscal year 2005, producing more than 41,000 additional new rental units. Most of these units will be affordable to moderate-income families, and most of them will be located in underserved areas.

When combined with other multifamily mortgage programs, including those serving non-profit developers, health care facilities, and refinancing mortgagors, FHA anticipates providing support for over 250,000 new units.

In addition to the extensive use of HOME funds for homeownership, the HOME program has invested heavily in the creation of new affordable rental housing. Since its inception, the HOME program has supported the building, rehabilitation, and purchase of more than 334,000 rental units. Program funds have also provided direct rental assistance to more than 100,000 households.

Native American Housing Block Grants provide a flexible source of funding to federally recognized tribes or tribally-designated housing entities and is used for a wide variety of affordable housing activities. Authorized uses include both rental housing and homeownership. The block grant is funded at \$647 million in fiscal year 2005.

The Native Hawaiian Housing Block Grant is modeled on the NAHBMG, and provides funding to the Department of Hawaiian Home Lands for a wide variety of eligible affordable housing activities, including the construction, rehabilitation, and acquisition of rental units for native Hawaiians who are eligible to reside on, or who already live on, Hawaiian Home Lands.

Several other HUD programs contribute to rental assistance, although not as a primary function. For example, the flexible Community Development Block Grant can be used to support rental-housing activities. The CDBG program is celebrating its 30th year in 2004, having provided over \$108 billion in much-needed resources to States, rural communities, inner cities, suburban communities, as well as counties to benefit low- and moderate-income persons.

The Department believes that regulatory barrier removal must be an essential component of any national housing strategy to address the needs of low- and moderate-income families. Therefore, HUD is committed to working with States and local communities to reduce regulatory barriers to the development of affordable housing.

In fiscal year 2003, the Department established "America's Affordable Communities Initiative: Bringing Homes Within Reach through Regulatory Reform." This major new initiative is a Department-wide effort charged not only with developing new approaches and incentives that can encourage efforts at the local level, but also reviewing and reforming HUD's own regulations that may be barriers to expanded housing affordability.

To support this effort, HUD will conduct research and dissemination efforts to learn more about the nature and extent of regulatory obstacles to affordable housing. Current research underway includes developing a methodology for "housing impact" analyses. This new tool will assist HUD and other Federal agencies, as well as State and local governments, to measure the impact of any proposed new regulation on housing affordability. Through such an expanded research and dissemination effort, HUD will develop the tools and approaches needed by State and local governments to address the many barriers that restrict the development of affordable housing.

STRENGTHENING COMMUNITIES

HUD is committed to preserving America's cities as vibrant hubs of commerce and making communities better places to live, work, and raise a family. The fiscal year 2005 budget provides States and localities with tools they can put to work improving economic health and promoting community development. Perhaps the greatest strength of HUD's economic development programs is the emphasis they place on helping communities address development priorities through local decision making.

The flagship of HUD's community and economic development programs is the Community Development Block Grant (CDBG) program. In fiscal year 2005, total funding for the CDBG account will be \$4.6 billion. CDBG funds go to 1,160 grantees in 944 cities, 165 counties, and 50 States, plus Puerto Rico.

CDBG's popularity is based on the fact that funds may be used for a broad range of housing revitalization and community and economic development activities, thereby increasing State and local capacity for economic revitalization, job creation and retention, neighborhood revitalization, public services, community development, renewal of distressed communities, and leveraging of non-Federal resources.

Of the \$4.6 billion in fiscal year 2005, \$4.3 billion will be distributed to entitlement communities, States, and insular areas, and \$71.6 million will be distributed by a competition to recognized tribes for the same uses. The remaining \$215 million is for specific purposes and programs at the local level and is distributed generally on a competitive grant basis. Principal among these initiatives in fiscal year 2005 are the Development Challenge Pilot Program, the National Community Development Initiative, the University Partnership Grant program, and Youthbuild.

The Fiscal Year 2005 Budget proposes an interagency effort to test ways to better coordinate, target, and leverage existing Federal community and economic development programs. Under the \$10 million Development Challenge Pilot Program, competitive grants will be awarded to a limited number of communities to develop and implement clear and measurable community development goals. The results of this initiative are intended to provide valuable information on how performance measurement can be made an integral part of CDBG and other community and economic development programs.

HUD participates in the privately organized and initiated NCDI. The Fiscal Year 2005 Budget will provide \$25 million for the NCDI, in which HUD has funded three phases of work since 1994. A fourth phase will emphasize the capacity building of community based development organizations, including community development corporations, in the economic arena and related community revitalization activities through the work of intermediaries, including the Local Initiatives Support Corporation and the Enterprise Foundation. In addition, the budget includes funding for capacity building activities for Habitat for Humanity (\$4.5 million) and Youthbuild USA (\$2 million).

The Fiscal Year 2005 Budget provides \$33.8 million through the University Partnership Grant program to assist colleges and universities, including minority institutions, to engage in a wide range of community development activities. Funds are also provided to support graduate programs that attract minority and economically disadvantaged students to participate in housing and community development fields of study.

The Fiscal Year 2005 Budget requests \$64.6 million for the Youthbuild program. Youthbuild is targeted to high school dropouts aged 16 to 24, and provides these disadvantaged young adults with education and employment skills through constructing and rehabilitating housing for low-income and homeless people. The program also provides opportunities for placement in apprenticeship programs or in jobs. The fiscal year 2005 request will serve more than 3,728 young adults.

The administration continues to work to meet the challenge of homelessness that confronts many American cities. The President has made an unprecedented, administration-wide commitment to eliminating chronic homelessness. The administration is also fundamentally changing the way the Nation manages the issue of homelessness by focusing more resources on providing permanent housing and supportive services for the homeless population, instead of simply providing more shelter beds.

HUD is an active member of the U.S. Interagency Council on Homelessness in its work to coordinate the efforts of 18 Federal agencies that address the needs of homeless persons. HUD and its partners are focused on improving the delivery of homeless services, which includes working to cut government red tape and simplifying the funding process.

The Fiscal Year 2005 Budget continues to address the housing needs of homeless individuals and families by funding targeted homeless programs at \$1.5 billion. Three initiatives are being proposed that will provide new direction and streamline

the delivery of funds to the local and non-profit organizations that serve the homeless population.

The Fiscal Year 2005 Budget includes the Samaritan Initiative to address the President's goal of ending chronic homelessness by 2012 and includes \$50 million for HUD and \$10 million for HHS and VA. Persons who experience chronic homelessness are a sub-population of approximately 150,000 who often have an addiction or suffer from a disabling physical or mental condition, and are homeless for extended periods of time or experience multiple episodes of homelessness. These individuals, for the most part, get help for a short time but soon fall back to the streets and shelters. Thus, they continually remain in the homeless system.

The Samaritan Initiative will fund promising local collaborative strategies to move chronically homeless individuals from the streets to safe permanent housing with supportive services. It will provide new housing options as well as aggressive outreach and services to homeless people living on the streets. HUD will continue other, current interagency efforts to end chronic homelessness including the joint initiative with the Department of Labor to link housing and employment services in local communities through One-Stop Career Centers.

HUD proposes to consolidate its three competitive homeless assistance programs into a single program. The consolidation will provide more consistent funding from year to year, expand eligible activities—including prevention—across programs, eliminate multiple match requirements, and simplify the competition and award process.

The administration again proposes legislation that would transfer the Emergency Food and Shelter Program (EFSP) from the Federal Emergency Management Agency to HUD. The transfer of this \$153 million program in its current form would allow for the consolidation of emergency shelter assistance—EFSP and the Emergency Shelter Grants program—under one agency. EFSP funds are distributed through a National Board (a public-private partnership) which in turn allocates funds to similar local Boards in eligible jurisdictions. Eligibility for funding is based on population, poverty, and unemployment data. The Board will be chaired by the Secretary of HUD and will include the nonprofit agencies that currently constitute the National Board.

In addition to funding homeless supportive services, the Fiscal Year 2005 Budget funds services benefiting adults and children from low-income families, the elderly, those with physical and mental disabilities, victims of predatory lending practices, and families living in housing contaminated by lead-based paint hazards.

The Fiscal Year 2005 Budget will provide \$773 million in funding for the Supportive Housing for the Elderly (Section 202) program. In the Section 202 program, funding for housing for the elderly is awarded competitively to non-profit organizations that construct new facilities. The facilities are also provided with rental assistance subsidies, enabling them to accept very low-income residents. Many residents live in the facilities for years; over time, these people often become frail and less able to live without some additional services. Therefore, the program is providing up to \$30 million of the grants to fund the conversion of all or part of existing properties to assisted-living facilities, enabling these elderly residents to remain in their units. In addition, up to \$53 million of the grant funds will be targeted to funding the service coordinators who help elderly residents obtain supportive services from the community.

The Fiscal Year 2005 Budget proposes to fund capital advances of \$249 million for Supportive Housing for Persons with Disabilities (Section 811). The Section 811 program will also continue to set aside funds to enable persons with disabilities to live in mainstream environments. Up to 25 percent of the grant funds can be used to provide Section 8-type vouchers that offer an alternative to congregate housing developments. In fiscal year 2005, up to \$50 million of the grant funds will be used to renew "mainstream" Section 8-type vouchers so that individuals can continue to use their vouchers to obtain rental-housing vouchers in the mainstream rental market.

In 2005, HUD will provide \$295 million in new grant funds for housing assistance and related supportive services for low-income persons with HIV/AIDS and their families through the Housing Opportunities for Persons with AIDS (HOPWA) program. Although most grants are allocated by formula, based on the number of cases and highest incidence of AIDS, a small portion is provided through competition for projects of national significance. The program will renew all existing grants in fiscal year 2005 and provide new formula grants for an expected two additional jurisdictions. Since 1999, the number of formula grantees has risen from 97 to an expected 119 in fiscal year 2005.

A compassionate Nation must ensure that those Americans served by HUD—many of whom are struggling families, or individuals facing a trying time in their

lives—live in a healthy and secure environment and have access to tools and opportunities that will help them move toward self-sufficiency. HUD's basic programs contribute to this goal by providing individuals and families with the housing and services that allow them to focus on recovery, job-related skill development, and obtaining work or increasing income.

The Voluntary Graduation Incentive Bonus recognizes PHA's that experience higher rates of families that transition out of the public housing program. This will be the first initiative in over 20 years to affirm that public housing's primary mission is to help low-income families gain access to housing for a temporary period while on the road toward economic freedom. Public housing should not be managed as a permanent housing solution for the poor. HUD will allocate \$15 million in operating fund monies to those PHA's that exceed a baseline transition rate.

In fiscal year 2005, the Department is introducing the concept of performance-based bonuses to PHA's in the Flexible Voucher Program. Potential performance standards would be successfully helping families, including elderly and disabled individuals, move toward independent living, economic self-sufficiency, and homeownership. PHA's that successfully achieve this goal will be awarded performance-based bonuses.

The Department's objectives emphasize the outcome of the self-sufficiency efforts and will measure the changes in the number of households no longer needing assistance, with an increase in the number of families involved in the Family Self-Sufficiency (FSS) program whose predominant source of income is work. PHA's will be rewarded for achieving these objectives through an incentive bonus. The bonus funding can be used by PHA's for a variety of activities, including payment of FSS staff salaries to ensure coordination with State agencies, faith-based organizations, and other non-profit providers of supportive services; job training, vocational, and educational activities; and counseling services.

The Department will provide \$55 million in funds to support the Resident Opportunity and Self-Sufficiency (ROSS) program for residents of Public and Indian Housing. The main purpose of the funds is to provide a link between residents and services that can help them achieve self-sufficiency.

HUD's Lead-Based Paint program is the central element of the President's effort to eradicate childhood lead-based paint poisoning. In fiscal year 2005, funding for the lead-based paint program will increase to \$139 million from the \$136 million requested by the President for fiscal year 2004. Grant funds are targeted to low-income, privately owned homes most likely to expose children to lead-based paint hazards.

The program conducts public education and compliance assistance to prevent childhood lead poisoning. New estimates from the Centers for Disease Control and Prevention (CDC) show that the program has helped to reduce the number of children at risk by 50 percent, but that nearly half a million children still have too much lead in their bodies.

Included in the request for this program is \$10 million for the Healthy Homes Initiative, which is targeted funding to prevent other housing-related childhood diseases and injuries such as asthma and carbon monoxide poisoning. The President's Taskforce Report notes that asthma alone costs the Nation over \$6 billion each year. Working with other agencies such as the CDC and the Environmental Protection Agency, HUD is bringing comprehensive expertise to the table in housing rehabilitation and construction, architecture, urban planning, public health, environmental science, and engineering to address a variety of childhood problems that are associated with housing.

ENSURING EQUAL OPPORTUNITY IN HOUSING

As the primary Federal agency responsible for the administration of fair housing laws, HUD is committed to protecting the housing rights of all Americans, regardless of race, color, national origin, religion, sex, age, familial status, or disability. This commitment is reflected in HUD's budget request for fiscal year 2005.

The goal of HUD's fair housing programs is to ensure that all families and individuals have access to a suitable living environment free from unlawful discrimination. HUD contributes to fair housing enforcement and education by directly enforcing the Federal fair housing laws and by funding State and local fair housing efforts through two programs: the Fair Housing Assistance Program (FHAP) and the Fair Housing Initiatives Program (FHIP).

The Fiscal Year 2005 Budget will provide \$27 million through FHAP for State and local jurisdictions that administer laws substantially equivalent to the Federal Fair Housing Act. The Department supports FHAP agencies by providing funds for capacity building, complaint processing, administration, training, and the enhance-

ment of data and information systems. FHAP grants are awarded annually on a noncompetitive basis. Activities funded by this program play a pivotal role in increasing the overall national homeownership rate, which we believe will add 5.5 million new minority homeowners by the end of the decade.

Targeted Education and Enforcement Follow Up on Housing Discrimination Studies is one of the activities supported through FHAP. This education campaign combats discriminatory activities, including those against African-Americans, Hispanics, Asians, Pacific Islanders, American Indians, Alaskan Natives, native Hawaiians, and persons with disabilities.

FHAP also supports the Fair Housing Training Academy, which will serve all FHAP agencies and provide continuing professional fair housing training and certification for current and future FHAP staff. The curriculum will cover training needed to ensure quality and timely investigations of fair housing complaints and includes case processing, conciliation skills, compliance monitoring, and testing.

The Department expects increases in discrimination cases processed by State and local fair housing agencies as a result of increased education and outreach activities. The fiscal year 2005 FHAP budget request supports this increase.

The Fiscal Year 2005 Budget will provide \$20.7 million in grant funds for non-profit FHAP agencies nationwide to directly target discrimination through education, outreach, and enforcement. The FHAP program for fiscal year 2005 is structured to respond to the finding of the 3-year National Discrimination Study and related studies, which reflect the need to expand education and outreach efforts nationally as a result of continuing high levels of discrimination.

Promoting the fair housing rights of persons with disabilities is a Departmental priority and will remain an important initiative within FHAP. Fair Housing Act accessibility design and construction training and technical guidance are an integral part of the Fair Housing Accessibility First Project. Bringing about industry-wide acceptance of accessibility as the way to design housing will depend, to a significant degree, on easy access to consistently accurate and helpful information and guidance on compliance. An extension of the current program for at least an additional 1 to 3 years is necessary to achieve this goal.

This project provides training to architects, builders, and others on how to design and construct multifamily buildings in compliance with the accessibility requirements of the Fair Housing Act. Therefore, the Department is requesting \$1 million for the first year of a new 3-year contract to continue the Fair Housing Accessibility First education and outreach training. Fair Housing Accessibility First will maintain a hotline and a website to provide personal assistance to housing professionals on design and construction problems.

PROMOTING THE PARTICIPATION OF FAITH-BASED AND COMMUNITY ORGANIZATIONS

HUD's Center for Faith-Based and Community Initiatives ("the Center") was established by Executive Order 13198 on January 29, 2001. Its purpose is to coordinate the Department's efforts to eliminate regulatory, contracting, and other obstacles to the participation of faith-based and other community organizations in social service programs.

To help returning prisoners rebuild their lives, find work, and avoid crime, the fiscal year 2005 President's Budget proposes a 4-year, \$300 million Prisoner Re-Entry Initiative to be carried out through the collaborative efforts of HUD and the Departments of Labor and Justice. Harnessing the resources and experience of faith-based and community organizations, the Prisoner Re-Entry Initiative will help ex-offenders find and keep jobs, secure transitional housing, and receive mentoring. HUD's Fiscal Year 2005 Budget includes \$25 million for this initiative.

The 2005 Budget also requests \$5 million for a faith-based pilot for a multi-city program aimed at increasing the participation of faith-based and community-based organizations in the cities' community development strategies.

The Center will continue to play a key role in fiscal year 2005 in facilitating intra-departmental and interagency cooperation regarding the needs of faith-based and community organizations. It will focus on research; law and policy; development of an interagency resource center to service faith-based and community partners; and expanding outreach, training, and coalition building. Additionally, the Center will participate in the furtherance of HUD's overall strategic goals and objectives—particularly as they relate to partnerships with faith-based and community organizations.

On December 12, 2002, the President issued Executive Order 13279, "Equal Protection of the Laws for Faith-Based and Community Organizations." The intent of the Executive Order is to ensure that faith-based and community organizations are

not unjustly discriminated against by regulations and bureaucratic practices and policies.

In fiscal year 2005, in compliance with Executive Orders 13198 and 13279, the Center will focus its work on the following key responsibilities: ensuring that the new regulations on faith-based organizations are implemented and reflected in all HUD policies; outreach to faith-based and community groups through technical assistance, the Center's website, interagency summits, and other efforts; establishing innovative pilot and demonstration programs to increase the participation of faith-based and other community organizations in Departmental initiatives; and educating government personnel on the faith-based and community initiative.

Progress on these efforts will be tracked as part of the President's Management Agenda (PMA).

EMBRACING HIGH STANDARDS OF ETHICS, MANAGEMENT, AND ACCOUNTABILITY

HUD is committed to improving performance in its critically needed housing and community development programs, and producing these improvements in a manner that reflects the highest standards of ethics, management, and accountability.

The PMA is designed to improve the overall efficiency and effectiveness of the Federal Government and to address significant management deficiencies at individual agencies. HUD fully embraces this sound management agenda and is on-target with the necessary plans and actions to meet the challenging goals set by the President. To sustain the focus needed to achieve these goals, they have been engrained in HUD's strategic and annual performance and operating plans.

The PMA includes five government-wide and two HUD-specific initiatives that are tracked and scored in terms of both baseline goal accomplishment and the adequacy of plans and progress towards achieving established goals. At HUD, these initiatives are addressing longstanding management problems that will require action over a period of years in order to achieve the President's goals.

In addition, the Department expects to build upon its continuing efforts to improve field management and Headquarters support to the operation and management of HUD's extensive field structure. In particular, the Office of Field Policy and Management will continue to work toward the effective integration of HUD's programs at the community level.

Human Capital

After many years of downsizing, HUD faces a large number of potential retirements and the loss of experienced staff. HUD's staff, or "human capital," is its most important asset in the delivery and oversight of the Department's mission.

HUD has taken significant steps to enhance and better use its existing staff capacity, and to obtain, develop, and maintain the staff capacity necessary to adequately support HUD's future program delivery. During fiscal year 2003, HUD completed the Department's Five-Year Strategic Human Capital Plan with implementation plans, and in fiscal year 2005 will complete comprehensive workforce analyses and plans focusing on its core business functions. During fiscal year 2005, HUD will implement its comprehensive Departmental workforce plan to ensure its workforce is aligned efficiently, skill gaps are assessed and corrected, and HUD staff retiring over the next 5 years are succeeded by qualified staff to continue quality service and program delivery.

Competitive Sourcing

HUD is working to determine if competition of staff functions identified as commercial would result in better performance and value for the government. However, given HUD's significant downsizing and extensive outsourcing of administrative and program functions over the past decade, opportunities for further competitive sourcing are limited and need to be carefully considered in the context of program risk exposure. HUD's Competitive Sourcing Plan has initially focused on establishing an adequate capacity to support the competitive sourcing process, with identifications of some initial opportunities for consideration of possible outsourcing, or in sourcing competitions to realize the President's goals for cost efficiency savings and improved service delivery. HUD will continue to assess its activities for other areas where competitive sourcing studies might benefit the Department.

Improved Financial Performance

HUD has strived over the past 2 years to enhance and stabilize its existing financial management systems operating environment to better support the Department and produce auditable financial statements in a timely manner. HUD has received an unqualified audit opinion on its consolidated financial statements for the past 4 consecutive years, and has reduced the number of auditor-reported internal control

weakness issues. In fiscal year 2005, the Department will continue making progress to reduce the number of material weaknesses or reportable conditions in its financial systems.

Electronic Government / Information Technology

HUD is not only pursuing increased electronic commerce and actively participating in all categories of the President's "E-Government" initiatives, but is also focused on information technology management improvements and maximizing the use of Internet technologies to make HUD more efficient, effective, and responsive.

In fiscal year 2005, HUD will place increased emphasis on the Department's E-Government, Privacy Act, Section 508 Disabilities Act, and Paperwork Reduction Act Programs. HUD's fiscal year 2005 information technology portfolio will benefit from continuing efforts to improve the IT capital planning process, implement project management guidance, strengthen IT project management to achieve performance goals, complete major business segments of HUD's IT business architecture, and continue to improve systems security on all platforms and applications.

Budget and Performance Integration

HUD developed its portion of the Fiscal Year 2005 Budget with a focus on collecting and using quality performance information, utilizing full cost accounting principles, and emphasizing program evaluations and research to inform decision-makers and managers. Staffing and other resources are aligned with strategic goals, objectives, and accomplishments. The Department will continue to work hard to improve and measure program performance.

HUD Management and Performance

HUD is aggressively pursuing several major efforts to improve its management and performance by strengthening internal controls to eliminate material weaknesses and remove HUD programs from the General Accounting Office's (GAO) high-risk list.

HUD's considerable efforts to improve the physical conditions at HUD-supported public and assisted housing developments are meeting with success. HUD and its housing partners have already achieved the original housing quality improvement goals through fiscal year 2005 and are raising the bar with new goals.

HUD overpays hundreds of millions of dollars in low-income rent subsidies due to the incomplete reporting of tenant income and the improper calculation of tenant rent contributions. Under the PMA, HUD's goal is to reduce rental assistance program errors and resulting erroneous payments 50 percent by 2005. HUD established aggressive interim goals for a 15 percent reduction in 2003 and a 30 percent reduction in 2004. The latest study for fiscal year 2003 indicates that HUD exceeded its error reduction goal for that year with a 30 percent reduction—estimated to be approximately \$600 million in reduced subsidy errors. Updated error measurement studies will be performed on program activity in 2004 and 2005 to assess the effectiveness of efforts to reduce program and payment errors. The Department has a number of training and monitoring programs in place that should produce additional error reductions. In fiscal year 2005, HUD will work with its program intermediaries to fully implement new statutory authority that enables more effective upfront income verifications to eliminate over half of the estimated erroneous assistance payments.

FHA will continue to vigorously attack predatory lending practices that encourage families to buy homes they cannot afford and cause homeowners to lose their homes by refinancing into loans with high interest rates. Elderly and minority homeowners are particularly vulnerable to predatory lending practices, which include property "flipping" (schemes where unscrupulous lenders buy homes and quickly resell them at inflated prices to uninformed buyers), home improvement scams, unaffordable mortgage loans, repeated refinancings with no borrower benefit, and "packing" life insurance and other products into the loan amount.

Since 2001, FHA has mounted a vigorous assault on predatory lending. FHA developed 16 rules to address deceptive or fraudulent practices. This includes the new Appraiser Watch Initiative, improvements to the Credit Watch Initiative that will identify problem loans and lenders earlier on, new standards for home inspectors, a rule to prohibit property "flipping" in FHA programs, and rules to prevent future swindles like the Section 203(k) scam that threatened the availability of affordable housing in New York City. These reforms, and the greater transparency they ensure, will make it more difficult for unscrupulous lenders to abuse borrowers. The HUD budget ensures that consumer education and enhanced financial literacy remain potent weapons in combating predatory lending.

The PMA tasked HUD with streamlining the Consolidated Plan process to make it more useful to communities in assessing their own progress toward addressing

the problems of low-income areas. HUD works closely with State and local program stakeholders on this initiative. It is anticipated that statutory and/or regulatory proposals to meet the intent of the PMA will be announced shortly. Pilot testing of a variety of streamlining efforts will be completed during 2004, which may lead to additional proposals for change. As an outgrowth of the initiative, HUD issued a Notice entitled "Development of State and Local Performance Measurement Systems for CPD Formula Grant Programs," which provides guidance to communities on developing and implementing performance measurement systems.

HUD acquires over \$1 billion in contracted services and goods each year. As part of an overall strategy to improve HUD's acquisition management, actions are being taken to ensure that HUD's centralized contract management information system contains reliable data on the number of active contracts, the expected cost of the contracts, and the types of goods and services acquired, and that its financial management information systems provide complete and reliable obligation and expenditure information on HUD's contracting activities. Other aspects of HUD's acquisitions management improvement strategy are being addressed through the human capital management strategy, which incorporates actions to enhance HUD's procurement staff capacity and improve guidance and training for acquisition officials throughout HUD.

CONCLUSION

Our success will be judged by the lives and communities we have forever changed through our work: the young families who have taken out their first mortgage and become homeowners; the once-homeless men and women who now have a home; the faith-based and community organizations that are successfully using HUD grants to deliver social services; and the neighborhoods once facing a shortage of affordable housing that now have enough homes for all.

Empowered by the resources provided for and supported by the administration's proposed Budget for fiscal year 2005, new success stories will be written and our communities and the entire Nation will grow stronger. And more citizens will come to know the American Dream for themselves.

I would like to thank each of you for your support of our efforts. We welcome your guidance as we continue our work together.

Thank you.

STATEMENT OF MICHAEL LIU

Mr. LIU. Thank you, Senator. I will summarize and try and move very quickly through my testimony—and Ranking Member.

In regards to the Section 8 Voucher Program, not wanting to replicate what my colleague has said on this subject, let me just note that many of the reforms contained in our proposal come from suggestions made by the public housing agencies themselves, as well as concepts already tested under the Moving to Work demonstration. It's also intended to deal with the growing complexity of the program.

Here we have in front of you, sir, our rules, regulations, various guidances that have grown around a very well-intentioned program, a program whose purpose we still support, but which we think needs to be rationalized and made more user-friendly.

Secondly, may I also mention that, in addition to making reforms to the program, the proposals, as a byproduct, add another tool to deal with some of the spiraling costs that we have all recognized are associated currently with the program.

Perhaps I could have some assistance here just to show—the first chart here indicates the size of the Section 8 tenant-based voucher program relative to HUD's budget, and that's that magenta-colored area there, over half—just a bit over half, based on the 2004 enacted budget, sir.

PUBLIC HOUSING CAPITAL FUND

Public housing, capital fund. The capital fund has remained stable since 2002, at approximately \$2.7 billion, which is our request for fiscal year 2005, as well. This steady level of financing—of funding allows PHA's to pursue debt financing to accelerate the modernization of public housing. Rehabilitation that would take 10 to 20 years, using annual appropriations, can now be dealt with in 5 years or less. So far, the Department has approved over \$1.4 billion in debt financing. There are over 40 deals in the pipeline now which might range anywhere from another billion to \$2 billion of private-sector dollars into the process of modernization and rehabilitation. These tools continue to enhance our ability to address more quickly the backlog in annual accrual needs of public housing.

HOPE VI

As to HOPE VI, the Department is not requesting any funding for the program for 2005, because we believe the program has achieved one of its primary goals of demolishing over 100,000 units of distressed public housing. However, the other primary goal of HOPE VI, revitalization of community, still awaits fruition. While this administration has made progress, with your assistance, in accelerating development schedules, still only 26 grants are completed out of close to 200, and approximately \$2½ billion remain unexpended. In addition, two more rounds of new grants will be awarded. And, with that, we will have the program in existence, with current funding, well into past 2010.

OPERATING FUND

Operating subsidy. The Department estimates that the request for \$3.6 billion for the Operating Fund in 2005 will fully fund PHA's according to the current formula. Currently, HUD is involved in a negotiated rule-making on this subject. We also have proposed a Freedom to House demonstration program, built on the Moving-to-Work Program in public housing, and we hope that we will get favorable consideration there.

We are also moving toward asset-based management, which was recommended by Harvard in a cost study which was requested by the Congress.

NATIVE PROGRAMS

Finally, our programs for Native Americans, Alaskan Natives, and Native Hawaiians are basically sustained in past-year levels, and we are very pleased with the success of the obligation and expenditure of amounts in those programs.

Thank you, sir.

Senator BOND. Thank you, Mr. Liu.

STATEMENT OF JOHN WEICHER

Dr. WEICHER. Thank you, Mr. Chairman. Good morning, Ranking Member Mikulski.

ZERO DOWN PAYMENT

I would like to focus on the Zero Down Payment Initiative that you referred to in your opening remarks. As you know, President Bush has placed major emphasis on promoting homeownership, particularly for minority households. This initiative has contributed to the record homeownership rate that Assistant Secretary Bernardi mentioned a moment ago. Housing continues to lead the way in our rebounding economy, and the President's housing initiatives will help more Americans, particularly minorities, achieve the dream of homeownership.

FHA has contributed to that record. Last year, we insured 1,365,000 new single family mortgages, the highest total ever. Eighty percent of our home-purchase borrowers are first-time homebuyers. Forty percent of our first-time homebuyers are minority households.

The fiscal year 2005 budget includes the Zero Down Payment Initiative as a major new proposal within our single family home mortgage program. First-time homebuyers will be allowed to finance 100 percent of the mortgage, as well as all closing costs. Potential homebuyers would not have to make FHA's normal minimum down payment or pay closing costs out of pocket. It's well known that the biggest hurdle to homeownership is having the cash for the downpayment and closing costs. Many families have a steady income and can afford the monthly mortgage payment, but don't have the up-front cash they need. We estimate that in the first year of the program, 150,000 families will be able to buy their own homes.

To compensate for the higher risk of default, the premiums will be higher than FHA's regular downpayment program. The up-front premium would be set at 2¼ percent, as compared to 1½ percent, and the annual premium would be 75 basis points, as compared to 50 basis points. After 5 years, the annual premium would be reduced to 50 basis points, the same as in our regular program.

I understand your concerns, Mr. Chairman, about the risk FHA would incur for this new program. At the higher premium, FHA will more than cover our expected claims. As the President's budget reports, we calculate that the additional \$19 billion in mortgage commitments will generate net revenue of about \$190 million in the first year.

I also want to note that the 2003 Actuarial Review of the MMI Fund calculates our net worth at \$22.7 billion, more than double the reserves required under the Cranston-Gonzalez National Affordable Housing Act.

It may be worth mentioning that I served at HUD when that Act was written, as Assistant Secretary for Policy Development and Research, and worked with Congress, worked with the authorizing committee, of which you were then a member, to develop the FHA reform legislation establishing the financial safety and soundness requirements, and reforming the 203(b) program.

I take seriously the need to operate FHA on a sound actuarial basis. There are several reasons why the new Zero Down Payment Program will increase our net worth. First, borrowers will be held to the same underwriting guidelines as those who apply for an

FHA standard-payment loan. They must meet the same payment-to-income and debt-to-income ratios, and the same credit standards.

Moreover, all potential borrowers would be required to participate in homeownership counseling. Our program data show that homeowners who have pre-purchase counseling are less likely to default than those that haven't. This administration has doubled the request for counseling funds since 2001, from \$20 million to \$40 million. You have appropriated those funds. And this year we're requesting a further increase, to \$45 million.

We would also require lenders to use our new FHA TOTAL Mortgage Scorecard to evaluate the overall credit-worthiness of borrowers. It allows FHA lenders to better predict which borrowers are good risks, and identify those that are bad risks. Further, our legislation would allow the Department to include additional requirements for borrowers, as we deem necessary.

Let me finish, briefly, by mentioning, the multifamily side, in particular, I know that Congress is concerned about the suspensions of activity within the GISRI Fund over the last year. We believe our proposed \$35 billion commitment level for the fund should minimize any possibility of suspension next year, and we are monitoring our activity every day this year. Secretary Jackson has said he's committed to provide information to you by May as to whether we felt we would need additional credit commitment authority this year.

Thank you, Mr. Chairman. I'll be glad to answer any questions.

FLEXIBLE VOUCHER PROPOSAL

Senator BOND. Thank you very much, gentlemen.

Mr. Liu, I'd say that that stack of regs cries out for regulatory reform. If we do not go along with the Flexible Voucher Program, that should really be fun to get rid of about two and a half of those stacks, or more. If you need some help from us, we'd be delighted to do it. I came to this body as a regulatory reformer, and, man, what a great opportunity right there. So I hope that will become a project.

Let me turn to the proposal. We've asked for analysis from HUD, which you've not been able to give us, on what each PHA receives in the current year under Section 8, and the amount of funds the PHA's would receive under Section 8 funding for 2005. If you don't have this data, I don't see how you can make this proposal without running models, using rent trends for each market in order to understand the impact of the cuts. In fact, HUD needs to analyze individual rents by market and possible increases to understand the impact of this proposal on low-income and extremely low-income families. If you have not run these models, why not? And if you have not, would you please do so, and provide them for the record?

Mr. LIU. Mr. Chairman, as you know, we are still in the 2004 year, and we are still calculating doing runs for individual PHA's relative to the formulas related to the 2004 budget. Our proposal for the Flexible Voucher Program deals with maintaining whatever proportionate share that a housing authority will ultimately get in 2004, to receive that proportionate share in 2005. So our ability to give specific dollar amounts for any particular PHA is limited at

this time because of where we are in the process of allocating our dollars for 2004. But we do believe that, in the aggregate, that allocation—again, keeping the proportionate level to whatever ends up being the share of the housing authority in 2004—will permit that housing agency, under our Flexible Voucher Proposal, which ultimately reduces the amount of work significantly of what a housing authority has to do in Section 8, to sustain?

Senator BOND. Well, this proposal has a ticking time bomb in it. We think that the OMB budget is underfunded by about \$2.2 billion, yet you say that HUD is confident it can maintain current levels of service, and even increase the number. But I'm concerned about the impact on extremely low-income families, those at or below 30 percent of median income. Those are the ones that we worked out in the 1998 agreement that we would serve them. But if a PHA has to maintain or increase the number of vouchers, it would seem to be a very strong incentive not to provide assistance to the low-income and, thus, the more expensive families needing the vouchers. And it would seem to me that the likely result would be a significant decline in the percent of low- and extremely low-income families served in the PHA's, because they won't be getting the money that they need, and yet they'll be charged with getting out more vouchers. I don't see how you can avoid that trap.

Mr. LIU. Mr. Chairman, as we have examined and collected information over the years from CORA, with the well-intentioned targeting of income that you described, and what we have found is that that has been, in some respects, yes, very successful, where 80 percent, currently, of those in the program actually are at the extremely low-income level, 18 percent are in the 30–50 percent of median-income level, less than 2 percent in the 50–80 percent level.

The difficulty comes where we definitely do have a limited resource—this is not an entitlement program, as we all know—and where we do have these long waiting lists. And housing authorities don't have the flexibility now, when they have reached the proportion, to make accommodations for those families that earn 35 percent of median income, maybe are working; or 40 percent of median income, trying to transition, trying to find a way up, and get that housing assistance. Housing agencies today don't have that flexibility to make that call, make that accommodation. And that's what we are asking housing agencies to at least have the option for. We're not mandating that they make the change, but they have the option to deal with those difficult situations.

Senator BOND. Thank you, Mr. Liu. I'll come back to these questions in my next round of questioning, but I'll turn it over to Senator Mikulski.

HOPE VI

Senator MIKULSKI. Thank you very much, Mr. Chairman.

I'd like to go to Assistant Secretary Liu and pick up on HOPE VI, which, as you know, is very important. I encourage the others to jump in. I know, Mr. Bernardi, you were a former mayor of Syracuse, and you had a lot of innovative ideas on urban development, so you know how it all goes hand in hand. HOPE VI was never meant to be a real-estate development, it was meant to be commu-

nity development. It was about a new physical architecture and a new social architecture.

Now, Mr. Liu, you're talking about how we still have \$2 billion in unspent HOPE VI funds. You estimate that this is going to go well into the decade. At the same time, what we understand is that there are somewhere between 50,000 and 80,000 severely distressed public-housing units still out there. Others, outside of HUD, tell me that, though there is the money in the pipeline, this is money that's on its way to being committed. This does not deal with the other issues of these 47,000 to 80,000. Can you tell me why we are cutting HOPE VI? And then, also, are you, at HUD, committed to looking at a reauthorization of HOPE VI and looking at lessons learned?

Mr. LIU. Senator Mikulski, we are definitely focused in on attempting to get the projects promised built. Besides the \$2½ billion, which is unexpended, there is going to be close to a half billion dollars after the announcements are made. Then there are billions more on top of that that are associated with these projects—some committed, some not yet committed, some part of these deals which have to be worked out. So—

Senator MIKULSKI. Well, how much of what is at HUD is uncommitted?

Mr. LIU. I'd have to check. I don't know the specifics—

Senator MIKULSKI. Well, I think that's important to know, and I appreciate the promises made, promises kept, where we are in the process, because we commit various amounts at various stages of development.

But let's go to the future of HOPE VI. We had been working with Secretary Martinez, who formed an internal group on HOPE VI to look at the future. Could you tell me where that internal group is? And also, using the work of the Urban Institute and others who have evaluated the need for this, are you all looking at a reauthorization of HOPE VI and what this would be, or do you all want to see it die?

Mr. LIU. We're looking at different tools for the area of redevelopment. There are a lot of ideas, a lot of great ideas, out there as to how—

Senator MIKULSKI. That wasn't my question.

Mr. LIU. We can—

Senator MIKULSKI. That wasn't my question.

Mr. LIU. Would you repeat the question? I'm sorry, Senator.

Senator MIKULSKI. Are you, or are you not, committed to the reauthorization of HOPE VI, knowing there needs to be review, refresh, reform, but also the restoration of HOPE VI as part of an authorized, funded program?

Mr. LIU. We have submitted our proposal, which is not to fund HOPE VI. We are looking at—

Senator MIKULSKI. Ever again?

Mr. LIU [continuing]. Other tools for redevelopment.

Senator MIKULSKI. Is the internal group on HOPE VI still at work?

Mr. LIU. We're still talking to people, doing research on this issue with that group and others, so the work continues to see—

Senator MIKULSKI. Work continues, but is it for the purpose of looking at what a 21st century HOPE VI would look like?

Mr. LIU. It would be for the purpose of looking at what a 21st century redevelopment program—I don't know if we'd call it HOPE VI, but some sort of a redevelopment program, yes.

Senator MIKULSKI. Well, you know where I am, because we have all this distressed housing, and we have more work to be done.

GAO REPORT ON FHA

Let me go now to FHA. First of all, Mr. Weicher, thank you for the work that you've done to help reduce predatory lending, not only in Baltimore, but all over. We understand the GAO is releasing a rather scathing report about HUD's disposition process today. We've only begun to get a preliminary look at it, but they're very, very critical of this, talking about payments for \$1,500 for a small kitchen cabinet, \$4,000 for an outdoor stoop with uneven patches—I won't go through all the specifics that are hair-raising examples—but could you tell us what is your view on the GAO report, particularly in implementing their recommendations for monitoring of their contractors, getting documentation of costs, and starting to take competitive work on repairs for FHA; in other words, getting value for their taxpayers' dollar, and ensuring that FHA is a good neighbor.

Dr. WEICHER. Yes, thank you, Senator Mikulski.

We have not seen the final report, but we commented on the draft report. And with respect to the examples you cited, these all concern properties which we took title to in clearing up a 203(k) fraud in New York, which occurred in 1999 and 2000, and early 2001. The GAO identified \$180,000 in payments on those properties which they consider to be improper payments. We, ourselves, identified almost \$900,000 in payments for bills from that contractor which we considered bills for work that had not been done.

Senator MIKULSKI. Yes, but—

Dr. WEICHER. We held—

Senator MIKULSKI [continuing]. The GAO report is more than the New York report. And I appreciate your efforts to clean it up. What about the recommendations on this? There are also those that believe that because HUD has contracted out property disposition, that debt has become more expensive and fraught, rife with waste, rather than bringing it back in-house with HUD people who know what to do. So where are we in cleaning up the overall issues? Because they cite the lack of internal controls, oversight of the single family and multifamily programs, and they go into other issues about it. I understand you inherited a mess in New York.

Dr. WEICHER. Well, in that vein—

Senator MIKULSKI. And I would acknowledge the validity of—

Dr. WEICHER [continuing]. In cleaning up that mess, we have terminated that contractor, we have referred that contractor to the Inspector General, and we held back almost \$900,000 from the final settlement of the contract with that contractor. Beyond that, I can say that, in 2002, the audit done by the Inspector General's office indicated that single family REO was a reportable condition. In 2003, the audit says that that condition has been resolved. I would say that we have—

Senator MIKULSKI. Well, that's not what they're saying.

Dr. WEICHER. That's the—

Senator MIKULSKI. I really need you to read the report.

Dr. WEICHER. I—

Senator MIKULSKI. They're talking about monitoring of contractors, getting documentation of the work done, competitive bids for repair work. And also: who does the property disposition? And there is significant material available that says when you contract that out, they're pretty sloppy about it.

Dr. WEICHER. Our—

Senator MIKULSKI. And this has a lot of issues in it. And I know you want to—

Dr. WEICHER. No—

Senator MIKULSKI. I mean—

Dr. WEICHER. I can tell you this, Senator; overall, we have the lowest loss rate, including the cost of maintaining property, that we've ever had in this program. We are losing 26 cents on the dollar; we've traditionally lost 40 to 45 cents on the dollar in this property. We have an inventory of 30,000 properties. It's down from 50,000 5 years ago. And it's come down straight during the recession.

Senator MIKULSKI. And I appreciate that good news. But have you looked at the GAO report? And do you intend to implement their reforms?

Dr. WEICHER. We looked at the report. We looked at the draft report. We haven't yet seen the final. We commented on the draft report. We took issue with the statements about questionable payments, most of the statements about questionable payments, which they made in the report. We recognize that, in some locations, only two reviews of individual invoices were made; whereas, the rules call for three, and we are correcting that so that the third review occurs, as well. We are also in the process of re-procuring the M&M contracts, and we will be re-procuring 24 contracts this year with a focus on providing opportunities for small business to participate more extensively—

Senator MIKULSKI. In doing what?

Dr. WEICHER [continuing]. In the program.

Senator MIKULSKI. In doing what?

Dr. WEICHER. In managing—the M&M contractors are the management and marketing contractors for the single family REO.

Senator MIKULSKI. Well, I'm sorry, I think that this is really rife with problems, and we want small business, but you've got to really look at competency.

Dr. WEICHER. I'm sorry, I didn't hear you.

Senator MIKULSKI. You've got to really look at competency. I was appalled to read the executive summary of GAO. I know you haven't had a chance to read it. I know we've had other such constructive work, and I know you really want to be the steward of taxpayers' dollars, as well as a good neighbor with HUD property in a community. I'm asking you to look at this. And while you're looking at expanding opportunity, let's make good use of this money.

Dr. WEICHER. We intend to do that, Senator, and I will be happy to, at any future time, have a more extensive discussion with you about what we have been doing.

Senator BOND. Mr. Weicher, following up on that, I see you have the report there on the table, just to Mr. Bernardi's right. Here is a picture of a new bathroom floor, which was approved for payment. You can see the holes in it, it's in terrible condition. This is a completed bathroom repair, which is a total disaster.

Now, here on page 38 is a bathroom repair that is so bad it should be X-rated. You may have procedures to have people sign off on the invoices, but I want to know who the HUD official is who is supposed to go out and look at that. I can't believe that you approve payments if three people look at an invoice, without sending a live person out to see if the work's done. Do you do that?

Dr. WEICHER. We do send people to look at repairs in individual cases. In this case, all of these refer to the New York properties that I mentioned in responding to Senator Mikulski. All of these examples are within that \$180,000. And we did, in fact, pursue those issues with the contractor, and we terminated the contractor, we referred the contractor to the Inspector General for further investigation, and we held back almost \$900,000 when we terminated the contract.

We have a new contractor, and the new contractor has been making the repairs, the needed repairs, and, by everything I know, doing a good job.

Senator BOND. Okay. Well, I mean, it took 6 years to get it done, and it seems to me if you're going to be paying hard cash for somebody to do the repairs, with the wonderful, talented field staff you have, you ought not to pay—

Dr. WEICHER. Uh-huh.

Senator BOND [continuing]. Until somebody goes out and looks and sees that the job's done. I mean, am I missing something here?

Dr. WEICHER. No, we have, ourselves, been following up on these properties ever since we began taking title to them in 2000 and 2001. We've followed up ourselves. We have tracked the performance of the contractor. We have had a lot of discussions with that contractor. They improved their performance for a while, they deteriorated again, and we terminated them.

Senator BOND. I'm not worried about the terminated contract. I want to make sure now when you get an invoice for somebody who's done repair work, does somebody from HUD go out and look and see if the job is done?

Dr. WEICHER. Yes. In this area in particular, we've had people specifically assigned to look at these properties, and they have come back and told us about the problems.

Senator BOND. Well, I would think that in every area it would make sense, before you pay—

Dr. WEICHER. Uh-huh.

FMRS

Senator BOND [continuing]. Somebody looks at it, because this one, obviously the serious problem should have been detected. I hope that you will get some real, live HUD person to look at it to

make sure the work's done before you pay for it. Otherwise, you're facing a disaster.

Let me go back to Mr. Liu. I'm worried about redlining in the concentration from this flexible voucher, because you're going to be shorting the PHA's, they're going to have to lower the amount of rent payments, that there will be a concentration of families into poor and distressed communities. And it seems to me that the potential is to increase homelessness and increase the "zip codes of poverty", as my colleague describes it. Why is this not a valid concern?

Mr. LIU. Mr. Chairman, as we have been collecting real market rent data from across the country, utilizing both our internal resources and those from the private sector—notably the Institute of Real-Estate Management, IREM, and Property Portfolio Research, PP&R, as well as work done by PD&R—in looking at the rents, we have seen that in the majority of areas across the country—not all, but in the majority of areas, the real rents have actually decreased across the market. And just the opposite has occurred with our FMR's, which are required to be set by Washington, by statute, and which have not been reflective of the changes in the marketplace in a timely fashion.

And the bottom line is, we, in fact, in many, many areas across the country, are paying more than what is really needed to provide safe and decent housing under Section 8.

Senator BOND. Well, No. 1, we'd like to have the data, if you'd provide that for us today.

Mr. LIU. Yes.

[CLERK'S NOTE.—The information referred to has been retained in Committee files.]

Senator BOND. No. 2, why can't you fix the FMR problem?

Mr. LIU. The FMR problems requires us to do it from Washington. And over the years, we have tried—and we are looking at it, and we're trying to deal with the issues at the edges, but it is very difficult, from Washington, DC, with the resources that we have, to go out and do the type of market-data research that truly reflects where we are.

Now, we are moving toward—

Senator BOND. You have staff out in the heartland, don't you? You've got a great staff, I know, in Kansas City.

Mr. LIU. Yes, we do, sir.

Senator BOND [continuing]. Can't they feed back to you something?

Mr. LIU. Well, we are working within that framework to do that, but what compounds this is the 110 percent payment standard, which, associated with whatever FMR we can come up with, has pushed the costs of the program to a very high level. The average payment standard now across the country is at 104 percent, and it's increasing every year.

Senator BOND. While you're speaking of Kansas City, we are hearing grave concerns that many PHA's, and specifically Kansas City, will have a significant shortfall. Kansas City Housing Authority projects it'll have a funding shortfall of over \$8.7 million. And even after using its 1 month reserve, HUD's formula would still

leave them with a shortfall of over \$5 million to support 1,237 families.

We included statutory language, at the recommendation of HUD, because HUD convinced us it was one way to assure that assisted-rent increases would reflect the increases of comparable unassisted units in the community.

How does HUD reconcile this failure to recognize the problem for 2004 with HUD's proposed total rewrite of Section 8 and the possible impact on families already receiving vouchers?

Mr. LIU. Mr. Chairman, the per-unit costs, as you know, were capped at the August 1, 2003 level, by statute, in the 2004 appropriations bill. And although Congress did add a billion dollars in funds to the requested amount, there was also a rescission of a billion dollars more than proposed by the President's request for 2004. So, in total, we did not get, you know, the increase needed, perhaps, to deal with the caps, which were set for 2004.

However, the fiscal year is not yet out, and there are still adjustments that both we and the housing agencies, as directed by Congress, can and need to make. So we're hopeful that we do not end up in the shortfall situation, sir.

FLEXIBLE VOUCHER

Senator BOND. You know, I have grave concerns that some areas are getting too much money, some areas are not getting enough.

Let me ask one other question. If you really want to deal with the problems, why do you propose to maintain the current restriction on project-based assistance? If HUD truly wants to allow PHA's to meet local housing needs, where there's a shortage of housing, where the rents have been driven up, why not allow PHA's the ability to use Section 8 assistance to develop more low-income housing as part of their mixed-income housing approach?

Mr. LIU. Well, under our flexible voucher proposal, Mr. Chairman, as well as under a proposed rule which is out right now, we move very much in that very direction, to allow much more flexibility on the part of housing authorities to use the tenant-based program for project-based reasons. For instance, the current cap of only 25 percent of the units in a building being eligible for project basing under the tenant-based program would be removed under our proposal, the flexible voucher. Both in the proposal, as well as in the Flexible Voucher Program, that would be listed. We are moving to take away site and location requirements of having to come back to Washington for review. We'd like to keep that in the field.

Senator BOND. I'll turn the questioning back to Senator Mikulski at this point.

FHA AND REAC

Senator MIKULSKI. Thank you very much, Mr. Chairman. That was an interesting line of questions, and I support the direction that you're going in.

I'd like to come back to FHA again. And it goes to something I call "public housing by proxy." And that goes to FHA-insured apartment buildings. Stick with me a minute. And I'll use Maryland as an example. One of the lessons learned was that high-rise public housing didn't work. And as suburbs contiguous to urban

areas tried to be innovative and use Section 8, where they welcomed Section 8, and people moved into apartment homes. Well, what we've seen is a pattern, particularly the closer you are into a city, is that apartment buildings or complexes have all become Section 8. So that's why I refer to it as "public housing by proxy." You sticking with me on that?

Dr. WEICHER. Yes, certainly.

Senator MIKULSKI. Now, what has happened, though, is that many of these units are older, many 40 or 50 years old. They do not have the oversight provided in public housing, with a professional housing authority, and so on.

Now, here, then, comes my set of questions, which goes to the fact of getting value. Section 8 is an opportunity for the poor, the way Mr. Liu has talked about, that it becomes the way to a better life, and, at the same time, we don't want to be in the business of publicly held big public buildings. Well, what we're seeing, though, is that these FHA-insured apartment buildings, in many instances, have taken on all the characteristics of slums, that they're run-down, they're not being maintained, that they become concentrations of both poverty and crime. But, at the same time, the landlords are taking the subsidies.

What is your role? First of all, I understand you have a REAC team that's supposed to inspect those.

Dr. WEICHER. Yes.

Senator MIKULSKI. And that there are 250 of them, but they're private contractors. What I'm going to is the fact that we make sure we're getting value, both for the taxpayer and the empowerment aspects. How are you really standing sentry and ensuring that these REAC teams, which are done by private contractors, not by government inspectors, are really doing their job, No. 1, and, No. 2, avoiding cronyism, kickbacks, and other kinds of winking and blinking? Because that same private contractor might have a deal with the owner of that complex, because many of them own several complexes in another area. And I know that this is—

Dr. WEICHER. Yeah.

Senator MIKULSKI. Could you share with me what your views on this and your operational procedures?

Dr. WEICHER. Sure. Part of this, I will refer back to Assistant Secretary Liu, because the REAC operation is formally part of public and Indian housing. But I can tell you this, we have looked at each of these buildings that we insure, and these include both the subsidized Section 8 project-based buildings and the insured buildings which are not subsidized, but which may have Section 8 voucher recipients in them, as well as those which have no subsidized recipients at all. We inspect each property. If it has a below-60 score, we inspect it every year. If it's between 60 and 80, we inspect it every other year. Above that, we inspect it every third year. We refer any project with a below-60 score to our Departmental Enforcement Center, which does its own review of the project and works with the owner to have the project upgraded to meet our standards.

Senator MIKULSKI. And how often, then, would you inspect them, then?

Dr. WEICHER. In that situation, we inspect them every year, but once they're in the Enforcement Center it's an ongoing process of working with the owner and verifying that the owner is making the—

Senator MIKULSKI. What happens if—

Dr. WEICHER [continuing]. Repairs.

Senator MIKULSKI [continuing]. But you do monthly inspections, weekly inspections, and so on?

Dr. WEICHER. They're—

Senator MIKULSKI. And then I want to come back. How do you insure the quality of the inspector? And, Mr. Liu, if you want to jump in so you see where I'm heading? We don't want to have government-subsidized slums. I like the idea that if you're a good-guy landlord, you don't have us running in every hour and a half—

Dr. WEICHER. Right.

Senator MIKULSKI [continuing]. But if you're on the edge or really are a skimmer, we want you in there a lot.

Dr. WEICHER. May I add one thing? The owner is required to tell us when the owner has completed the repairs, and then we go out and verify that the repairs have been made.

Senator MIKULSKI. And you actually go—

Dr. WEICHER. And that, of course—

Senator MIKULSKI [continuing]. An onsite—

Dr. WEICHER. Yes.

Senator MIKULSKI [continuing]. Repair.

Dr. WEICHER. Yes.

Senator MIKULSKI. You don't just go—

Dr. WEICHER. Yes, we do that. I wanted to add that before—

Senator MIKULSKI. Yes. And Mr. Liu, and also, then, to ensure what we would call the independence and vigor of the REAC team contractors.

Mr. LIU. What we have, Senator Mikulski, is—within the last year and a half, we had the same concern, because we had created a system with our contractors where they would be able to bid—let's say a housing authority on the public-housing side, or on a multifamily on a project base, without necessarily breaking it down on a per-unit base. So we have been very concerned about essentially some skimming—ability to get some float which is really not associated with the work being done.

We have put together a quality-assurance protocol where we do a periodic check of a certain random sample now every, I think, 3 months, of the contractors that we have. Secondly, if there is a variance of a score, whether it's multi-family or on public housing, I think if it varies above 15 points over the prior year, we send out a REAC, a HUD team, to do what we call a "confirmatory review", to check on the work of the contracting inspector.

Finally, we are now in the mode of a demonstration where we are working to cut out the middle person right now, because contractors who actually do the work are actually subcontractors of a few, relatively few, middle contractors, so that further diffuses the contact with HUD. And we are experimenting now with a system whereby individual contractors can bid on individual projects that are available for inspection, so that we have a closer link to the actual inspectors and inspections being done.

SALE OF PROPERTY TO OWNERS WITH CODE VIOLATIONS

Senator MIKULSKI. Well, I really want to support the momentum for reform that you have here, and oversight vigor and independence, at the same time, for rewarding good behavior, either through the person doing the inspections, or where they're really the good landlords, they have a cooperative Federal Government. So I want to support you on that.

The other is that in last year's legislation, we talked about a good-neighbor policy and to ask HUD to stop or curtail HUD from selling foreclosed buildings to owners with serious records of housing-code violations. These were the ones who were skipping it up and I call them "pre-predators", or another kind of way to weasel in.

Mr. LIU. Yes.

Senator MIKULSKI. We won't call them "predators", we'll call them "weasels." It's not a technical term found in regulators but it's out there in the neighborhoods and for the taxpayer.

Could you tell us where you are in helping with this again to get value and neighborhood development, et cetera?

Dr. WEICHER. We are in the process of developing regulations to prevent the sale of properties to purchasers who have demonstrated patterns of housing-code violations. We have put together a term sheet for the development of that proposed regulation, and asked the General Counsel's office to make that a priority, and we will be producing it. I can't give you a precise schedule at this point, but we know it's a priority, and we will be doing it—

Senator MIKULSKI. Yes, we had—

Dr. WEICHER [continuing]. As quickly as we can.

Senator MIKULSKI. Yes, we had a April 22 deadline, and—

Dr. WEICHER. If we have a proposed regulation by April 22, it will be a substantial achievement. We will certainly keep you apprised. But we can't, of course, possibly get a final regulation in place—

Senator MIKULSKI. But I think you would—

Dr. WEICHER [continuing]. In 3 months.

Senator MIKULSKI [continuing]. I think we agree on the spirit of the—

Dr. WEICHER. Yes.

Senator MIKULSKI [continuing]. Outcome.

Dr. WEICHER. We certainly—

Senator MIKULSKI. And then—

Dr. WEICHER [continuing]. Do.

FHA FORECLOSURE RATES

Senator MIKULSKI [continuing]. As well-paced of a implementation as we can.

Mr. Chairman, if I could just ask, Mr. Weicher, why you got our FHA proposal rates up so high?

Dr. WEICHER. Sure.

Senator MIKULSKI. And that will be my last question.

Dr. WEICHER. Sure.

Senator MIKULSKI. Yes, sir. FHA?

Dr. WEICHER. Sure. Our foreclosure—

Senator MIKULSKI. And, again, I really want to thank you for our tremendous inroads against predatory lending. At least at the FHA level. We've got a lot more to do at the sub-prime level. But—

Dr. WEICHER. Thank you for that. May I say, also, we haven't quit. We are not resting on our laurels. We have additional regulations to address predatory lending. And, just last week, we sent up, for the 15-day review period, a proposed regulation requiring treble damages to a lender for failure to engage in loss mitigation—

Senator MIKULSKI. Right.

Dr. WEICHER [continuing]. Which is part of our effort.

Let me say, with respect to foreclosure rates, our foreclosure rates in FHA are dropping, in fiscal year 2004, to where they were in fiscal year 2003. They're down nationally. They're down in most of the larger metropolitan areas. What we have seen is a typical pattern when there is a recession—foreclosures rise, but they keep on rising after we hit bottom in the recession, because people try to hang onto their house as long as they can, and people make the payments as long as they can. And it's after we've hit bottom in the recession and are starting up, but—

Senator MIKULSKI. So you think that—

Dr. WEICHER [continuing]. Some of the people who are still unemployed fail.

Senator MIKULSKI [continuing]. It's a temporary spike—

Dr. WEICHER. Yes.

Senator MIKULSKI [continuing]. Rather than a pattern.

Dr. WEICHER. Yes. And we are seeing it start to come down.

Senator MIKULSKI. Well, that's good news.

Dr. WEICHER. Our foreclosure rate last year was just over 1½ percent of our portfolio, and it's dropping slightly this year.

THE ELDERLY AND FAITH-BASED INITIATIVES

Senator MIKULSKI. Mr. Chairman, I know you want to pick up.

Mr. Liu, are you the senior housing guy? Who's the faith-based senior housing, where they build senior housing only?

Dr. WEICHER. I'm responsible for 202 and 811, Senator.

Senator MIKULSKI. Okay. Something that I will be putting in the report, but will be discussing with you at another time, is that we're concerned. First of all, we think it's been one of the greatest ways for there to be faith-based participation, and it's been really wonderful for communities, and it's also been constitutionally compliant, so we haven't gotten into the separation of church/State issues. What we're also noting is that the buildings are getting older. So many were built into the 1970's and the 1980's. And the people in them are getting old. We've got aging in place. And we're looking to HUD for ways for modernization, particularly where we have aging faith-based facilities, where they're now using philanthropic dollars for modernization. And, at the same, to understand that there needs to be a service component to it where these are faith-based, naturally-occurring retirement communities.

So we're not going to go into that today, but know that I want to look at this so that we can continue to have a robust faith-based initiative for the elderly, and, at the same time, acknowledge that, while they're hesitant to start the new because they've got these aging facilities.

Dr. WEICHER. I'll be happy to discuss that with you further. We certainly have put in place a regulation to allow prepayment and refinancing of the older properties to take advantage of the lower interest rates and to provide funds for rehabilitation of properties. And we are looking to make sure that that program is as effective—

Senator MIKULSKI. Well, I'm going to—

Dr. WEICHER [continuing]. As it can possibly be.

Senator MIKULSKI [continuing]. Ask my staff to talk to yours in more detail.

Dr. WEICHER. I'd be happy to do that, Senator.

Senator MIKULSKI. Thank you.

ZERO DOWNPAYMENT

Senator BOND. Thank you very much, Senator Mikulski. We will want to follow up with you on the foreclosure and delinquency rates. We get some sense that it may be much higher.

Going back to the Zero Down Payment Program, a couple of major problems I have with it. It seems to be a decision by FHA that it can afford to house as many people as possible, no matter the cost of the default to the fund or the impact of a family's credit in the future. Did you take those two things into account in proposing the Zero Down Payment Program?

Dr. WEICHER. We looked carefully at all aspects of the program. We looked at who we could be serving in that program. We worked with data that the Federal Reserve produces, the Survey of Consumer Finances, which identifies households both by assets and by income and by financial history, to see what the market could be and who would be in a position to afford zero down payment.

We put in safeguards to hold the default rate down like the requirement for counseling, the requirement that the loans be scored through our total scorecard, which does a better job of predicting risk than anything we've seen in the FHA or the conventional market. And we will retain our current underwriting requirements on payment-to-income, debt-to-income, credit history, as well. We're trying to reach people who have good jobs, but who haven't built up the assets to enable them to make the down payment.

Senator BOND. Are you sure you're not going to be attracting the highest-risk home buyers into this program?

Dr. WEICHER. No. Because we maintain our credit standards. We will serve buyers who are about as risky as the buyers we have now, but who have not accumulated the down payment. We expect that there will be more defaults in this program than there will be in our regular program, and that's why we have proposed a higher premium. But we intend to do everything we can to make sure that the borrowers we serve are creditworthy.

Senator BOND. As you may recall, one of my team worked at HUD during—

Dr. WEICHER. Yeah.

Senator BOND [continuing]. Your tenure as—

Dr. WEICHER. I do.

Senator BOND [continuing]. Assistant Secretary for Policy Development and Research. And during that time, you were responsible for legislation designed to increase the actuarial soundness of the

Fund, which included requirements that the home buyer have a stake in the home through reasonable down payment. One of the most significant concerns at that time was the impact of defaulted FHA housing on neighborhoods. As you know, through predatory lending issues, defaulted and distressed FHA properties, they remain a tremendous burden on communities, many of which are fragile.

How is HUD going to address this issue in the FHA Zero Down Payment Program?

Dr. WEICHER. Well, we are addressing it partly, as I said, through maintaining our underwriting standards and through the counseling requirement. And we know counseling makes a difference in people's performance after they buy a home. In addition to that, we know something we did not know 10 years ago. We have the information now about the importance of credit history as measured in FICO scores and other techniques. And we know that that is a more important predictor of default than the initial down payment or loan-to-value requirement, and we will be looking at credit scores in the total.

And what I would say also is—we were talking earlier about the single family side—we have worked hard to acquire and sell the single family properties when there is a claim—a foreclosure and a claim—and we are turning properties over faster than we have in many years. Four years ago, we would own a property for 7 months before we'd be able to sell it, on average. Now we're down to 5, and we're working to move that—

Senator BOND. Well, we commend you—

Dr. WEICHER [continuing]. Faster.

Senator BOND [continuing]. For progress in that area. And as you might have gathered, I am very much concerned about this.

What would you say to limiting the availability of the FHA zero down payment mortgage insurance to a trigger, for example, where HUD can only make this insurance available if FHA claims for their previous year do not exceed 3½ percent?

Dr. WEICHER. That would be fine. And if you felt that way—let me say this. Our claims last year were 1½ percent. There's been some confusion in the press about our defaults. I noticed, in the National Journal, a reporter said that 12 percent of our loans were past due, which has been interpreted by some of your colleagues in the House as being in foreclosure or in default, but that's not the case. Our defaults have been running 3 percent; our foreclosures and claims, half of that. And as I said in response to Senator Mikulski, those rates have been dropping in this fiscal year.

Senator BOND. Well, we're hearing things about different numbers, as well, so we'll have to do some work with you to get those clarified.

Dr. WEICHER. May I mention that FHA's delinquency rate is reported as 12 percent, but this is the rate for 30-day delinquencies. FHA's 90-day delinquency rates are approximately half this rate. And claims over the last 12 months are only 1½ percent of the current insurance-in-force. I will be happy to provide the program data to anyone who you feel would benefit from talking with us about it.

Senator BOND. We'd be happy to do that.

Well, as I indicated, we do need to close this down. We do have a number of other questions focusing on many of the areas of concern.

CHAIRMAN'S CLOSING REMARKS

We appreciate the progress you have made, and we've focused on concerns that we have with some of the proposed policies, which I have yet to be convinced are good changes. I continue to be disappointed that OMB or somebody somewhere has chosen to strike out the priorities that this committee and Congress have put in, in the past.

Mr. Bernardi, anything you want to say in closing?

ADDITIONAL COMMITTEE QUESTIONS

Mr. BERNARDI. Well, Senator, thank you for the opportunity. The questions that you would like answered in writing, we'll make sure our congressional relations folks have those, and we'll get responses back to you as quickly as we can.

[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 CHRISTOPHER S. BOND

SECTION 8 CERTIFICATE FUND—UNDERLYING ANALYSIS

Question. According to CBO estimates, HUD's proposed fiscal year 2005 level is some \$2.2 billion less than the CBO-projected needs for section 8 contract renewals in fiscal year 2005. This represents a loss of section 8 assistance for some 330,000 families.

We asked for analysis of what each PHA receives for fiscal year 2004 under section 8 and the amount of funds each PHA will receive under section 8 funding for fiscal year 2005. HUD has not been able to supply this information which was requested. However, I do not see how you seriously can make this proposal without running models using rent trends for each market in order to understand the impact of these budget cuts. In fact, HUD needs to also analyze the individual rents by market and possible increases to understand the impact of this proposal on low-income and extremely low-income families. Has HUD run these models and conducted this analysis? If not, why not? If not, please do so and provide for the record the different models and impact?

Answer. When the Flexible Voucher Program was proposed, the Department did not have an appropriation for fiscal year 2004 and did not know the level of funding PHAs would receive in fiscal year 2004 to make a comparison on a PHA-by-PHA basis. The proposal submitted based requirements at the national level, taking into consideration the cost savings that could with the flexibilities that could be implemented in a PHA program. That information has been made available via the Flexible Voucher Program—White Paper of May 18, 2004 entitled "The Flexible Voucher Program: Why a New Approach to Housing Subsidy is Needed."

SECTION 8 UNDERFUNDED—EXTREMELY LOW-INCOME FAMILIES

Question. HUD is proposing to underfund section 8 by some \$2.2 billion in fiscal year 2005. However, HUD has stated that it is confident that it will be able to maintain current levels of service and even increase the number of families served in the near future. How does HUD know this; how does this work—serve more families with less funding?

Answer. The President's Budget for fiscal year proposes to spend \$13.3 billion on the new Flexible Voucher Program, \$1.1 billion less than the current Housing Choice Voucher appropriation for fiscal year 2004. This difference in cost is driven by savings from the redesign of the program, not from reductions in the number of families assisted. In fact, the Department believes that the improved design of the new Flexible Voucher Program can, over time, help a greater number of families afford decent housing.

This is possible because of savings that will result from eliminating much of the current 1-month funding reserve, reducing the payment standard, reducing income-related errors, and permitting greater flexibility in income targeting. The Flexible Voucher Program will also trigger savings in administrative costs due to greater simplicity and flexibility in income determinations, reduced frequency of income certifications, and reduced frequency of housing quality inspections. The savings calculations are detailed in a HUD document entitled "The Flexible Voucher Program: Why A New Approach to Housing Subsidy Is Needed" that is currently on HUD's website and is attached.

[CLERK'S NOTE.—The document may be found at <http://www.hud.gov/utilities/intercept.cfm?/offices/pih/programs/hcv/fvp/wponfvp.pdf>.]

Following are extracts from this document.

"Enactment of the Flexible Voucher Program would permit substantial savings. The Administration has proposed \$1.1 billion less in subsidy payments in fiscal year 2005 than Congress appropriated in fiscal year 2004, and \$59 million less in administrative fees to PHAs. However, we estimate that in fiscal year 2005 alone, Flexible Vouchers would save \$1.804 billion in total, \$1.674 billion in subsidies and \$130 million in administrative expenses.

FIRST-YEAR SAVINGS SUMMARY TABLE

[In millions of dollars]

	Program Savings	Administrative Expense Savings
Payment Standard	\$815	.....
Income-related error	350	.....
Reserve elimination	450	.....
Targeting flexibility	59-350	.....
Total	1,674	.....
Income flexibility .....	.....	\$56
Less Recertification .....	.....	45
Less Inspection .....	.....	29
Total .....	.....	130

"Program Savings

"\$815 million in first-year savings and annually recurring savings in excess of \$1 billion due to the average payment standard returning to 95 percent of FMR

"After the first year, savings would occur over 12 months, rather than 9 months, and more than \$1 billion would be saved annually.

"\$350 million in annually recurring savings from net income-related error

"The Fiscal Year 2004 Appropriations Bill for HUD programs authorized HUD to have access to the Department of Health and Human Services' (HHS) New Hires database. One of the components of this database is a records system with comprehensive income source and earnings data reports. An income match for a sample of assisted housing tenants in 2000 showed that approximately \$700 million in excess subsidy payments was paid for voucher program units because of intentionally and unintentionally unreported income. It is estimated that at least \$350 million (50 percent) can be collected and will reduce subsidy requirements. The other thing that reduces income-related error is the actual subsidy calculations, which will decrease if not be eliminated by allowing PHAs to simplify rent policies.

"\$450 million one-time savings from elimination of the reserves

"The 1-month reserve will no longer be required in a dollar-based program. However, we plan to leave a small amount in reserves for PHAs in the first year of the Flexible Voucher Program to allow for some transition.

"\$59 to \$350 million in first-year savings from greater flexibility in targeting, and out-year savings significantly higher

"Currently 80 percent of new admissions in the voucher program are 'extremely low-income' families, in excess of the 75 percent of admissions that every PHA must reserve for the extremely low-income (less than 30 percent of area median income).

The actual savings amount resulting from targeting flexibility will vary depending on the income targeting policies adopted by PHAs. But savings are expected in all circumstances.

“For example, if PHAs reverted to the pre-QHWRA admission percentages of 68 percent extremely low-income, 23 percent very low-income, and 9 percent low-income families, at least \$59 million of savings would still result in the first year and at least \$118 million of savings would result in the second year. If PHAs exercise their targeting flexibility by admitting 40 percent extremely low-income families, 40 percent very low-income income (30 to 50 percent of area median income), and 20 percent low-income (50 to 80 percent of area median income) families, as much as \$350 million¹ would be saved.”

Question. I am very concerned about the impact on extremely low-income families—those who are at or below 30 percent of median income. Has HUD looked at the impact of the proposal on extremely low-income families—those with the greatest housing need and who are often elderly or disabled; esp. since the proposal would eliminate the requirement that three-fourths of all vouchers go to extremely low-income families. Please explain how these families would be protected?

Answer. You also expressed concern about the Flexible Voucher Program provisions to permit greater PHA discretion concerning admissions and removal of the extremely low-income targeting requirement that was established by law in 1998. It is not true that the voucher program will no longer serve poor families who are in need of housing—eligibility for the Flexible Voucher Program is still restricted to low-income families.

Like the original tenant-based certificate program, eligibility for the Flexible Voucher Program is intended to serve low-income families (80 percent of area median or less) without a requirement that 75 percent of new admissions be families with extremely-low incomes. We do not anticipate that PHAs will stop admitting extremely low-income families. As stated above, before QHWRA was enacted in 1998 (before there was a voucher program targeting requirement), 68 percent of voucher program admissions were extremely low-income families. PHA admission decisions before QHWRA are the best indicators of what is likely to happen if the extremely low-income targeting requirement is removed and PHAs are allowed to serve the needs of the low-income families on their waiting lists.

In addition, we do not anticipate that PHAs will stop admitting extremely low-income elderly and disabled families. It is noted that the voucher program has an outstanding track record in assisting disabled families, without any mandatory targeting requirements.

There are many advantages of providing more PHA flexibility in admissions. PHAs will be able to address other local needs such as families transitioning from welfare to work, families working full-time yet still in need, families experiencing housing emergencies, first-time, low-income homebuyers, and families at 35 percent or 45 percent of adjusted median income who have been on the PHA waiting list for prolonged periods of time.

Question. With limited funds, please provide any data that would demonstrate the likely treatment of extremely low-income families under this proposal?

Answer. The Flexible Voucher Program permits PHAs to design admission policies that are appropriate based on local needs. Although there would no longer be a requirement that at least 75 percent of all admissions be extremely low-income families, eligibility for the program remains limited to low-income families with incomes below 80 percent of the area adjusted median income.

Since each PHA may adopt local admission policies, it is not possible to model these local decisions. It is expected, however, that the Flexible Voucher Program will be successful in meeting the needs of low-income families as has been the case with the Moving to Work demonstration, community development block grants, and other programs that have maximized local administrative flexibility.

REDLINING AND CONCENTRATION

Question. Under the proposed HUD fiscal year 2005 section 8 block grant proposal, it would appear that many to most PHAs would have lower their payment standard to the extent that voucher families would be forced to rent housing in primarily low-income and distressed communities. This appears to mean that HUD would be endorsing policies that will effectively result in a type of redlining where

¹Savings amount for Scenario 2 of Table 4 (United States Department of Housing and Urban Development Housing Certificate Fund Analysis of Potential Savings from Income Targeting Flexibility) for the Housing Certificate Fund, Congressional Justification for 2005 Estimates.

low-income families will be concentrated into poor and distressed communities? Why wouldn't this happen?

Answer. The Flexible Voucher Program will not force families to live in "redlined" poor and distressed communities. Instead, the Flexible Voucher Program permits maximum PHA flexibility in setting payment standard levels. Under the Flexible Voucher Program, PHAs will be able to set accurate and appropriate rents for each neighborhood, regardless of where the family chooses to live.

However, HUD believes that many payment standards are now set at higher than necessary levels for families to rent modest housing in non-distressed areas, and anticipates that PHAs will lower these payment standards under the Flexible Voucher Program. In December 2000, the average public housing agency (PHA) payment standard was \$648, or 95 percent of the Fair Market Rent (FMR). By December 2003, however, the average PHA payment standard was \$844, and was equal to 104 percent of FMR. During this time, the percentage of program participants with payment standards between 101 and 110 percent of FMR rose from 25 percent to 50 percent of all participants. This 30.25 percent nationwide average increase in payment standards between December 2000 and December 2003 is not supported by the much lower 10.5 percent nationwide average increase in gross rents (as measured by Consumer Price Index) during this same period. This cost increase has occurred even as markets across the country exhibited record high vacancy rates and PHAs from across the country report to HUD that rents in their markets have declined.

Question. How does this proposal fit in with HUD's goal of ending homelessness by 2012 especially since by all accounts homelessness is increasing?

Answer. Designing programs to effectively address homelessness is a difficult task made all the more so by the fact that no objective and comprehensive count of the number of homeless exists to help steer policies. As such, and setting aside anecdotal stories, HUD would dispute that by all accounts homelessness is increasing. Instead, the Department points towards an array of programs funded through HUD that are successfully helping homeless individuals and families transition from the streets into permanent housing and employment. While not a central component of HUD's goal of ending homelessness, the Flexible Voucher Program gives more flexibility to local PHAs to address homelessness based on local needs. One example of the flexibility that the Flexible Voucher Program will provide is the ability to allow PHAs to give priority to homeless families when vouchers become available.

SECTION 8 FISCAL YEAR 2004 SHORTFALLS

Question. We are hearing concerns that HUD's implementation of how rent increases will be calculated under section 8 funding for this year will leave many PHAs with shortfalls that could result in the loss of affordable housing. As I understand it, the Kansas City Housing Authority will have a funding shortfall of over \$8.7 million, and that even after using its 1-month reserve, HUD's formula would still leave them with a shortfall of over \$5 million to support 1,237 families. We included the statutory language at the strong recommendation of HUD because HUD convinced us this was the way to control the spiraling cost of rents by ensuring any rent increases would reflect rent costs no greater than the rent costs of comparable unassisted units in the community. How does HUD reconcile these cost concerns and what is HUD doing to educate PHAs on how HUD will implement these rent baselines while ensuring that voucher families will be held harmless. Is there a problem? If a problem, what is the problem and what is HUD doing to resolve the problem?

Answer. HUD is working diligently to implement the Fiscal Year 2004 Act. On enacting the Act for this program, Congress has taken two important steps to bring the spiraling costs of the Section 8 voucher program under control. First, it has returned the program to a budget basis, in which public housing agencies (PHAs) are provided a set amount of funding. This is how the program operated prior to fiscal year 2003. Second, Congress provided the program with a 14 percent increase in funding over fiscal year 2003 levels to ensure that the transition back to a budget basis would not affect current families served.

Just this week, HUD announced that it is providing funding to restore program reserves for approximately 500 PHAs, totally approximately \$150 million. In addition, HUD has decided to apply the full AAF to each PHAs funding level for 2004, rather than phasing it in over the year. This will especially help PHAs that have a fiscal year ending in June or September of this year.

HUD is working with PHAs on a daily basis to understand how their funding is being calculated as well as steps they can take if their voucher costs have risen faster than HUD's AAF. Also, HUD is allowing PHAs to appeal the AAF if their actual market rents have increased at a faster rate than HUD's AAF.

The only cost and rent data available to HUD or Congress at the time of the Fiscal Year 2004 Act was data reported to HUD by PHAs as of August 1, 2003. This PHA-reported cost and rent data was much more recent than any data available to your committee in previous years for the purposes of calculating funding requirements for the voucher program. Not only was the data recent, it represented the highest per-voucher costs ever. Congress then decided to take HUD's published AAF inflation data for each market to adjust the August 2003 costs for 2004. HUD believes that this was a reasonable approach to funding the voucher program in fiscal year 2004. This approach also provided a 14 percent increase over fiscal year 2003 levels. Such an increase should provide adequate funding to support all vouchers in use in 2004, notwithstanding some PHAs who will likely have successful appeals for a higher AAF based on true rental increases in their markets.

Question. Assuming a cost of rent problem, how does HUD reconcile this failure to recognize this problem for fiscal year 2004 with HUD's total rewrite of the section 8 for fiscal year 2004?

Answer. The Department does not believe there is a problem. The Department believes that the fiscal year 2004 budget was developed using a reasonable approach to funding the fiscal year 2004 voucher program, i.e., adjusting the August 2003 costs by the published AAF inflation data for each market. The fiscal year 2004 approach provides a 14 percent increase over fiscal year 2003 funding levels. Such an increase should provide adequate funding to support all vouchers in use in fiscal year 2004, notwithstanding some PHAs who will likely have successful appeals for a higher AAF based on true rental increases in their markets. Moreover, it is well understood that budgeting and funding on a strict unit basis poses significant challenges and exposes even the best estimates to be thrown awry.

PROJECT-BASED SECTION 8

Question. The administration's proposal to block grant section 8 to PHAs still maintains the current restriction that no more than 20 percent of section 8 funds may be used for section 8 project-based assistance. If HUD truly wants to allow PHAs the flexibility to meet local housing conditions, why not allow PHAs unlimited ability to use their section 8 assistance to develop more low-income housing as part of mixed-income housing? Costs would be more controllable. This also would be particularly useful in tight rental markets and could be very helpful in keeping rents down over the long haul.

Answer. In developing the Flexible Voucher Program legislative proposal, HUD chose to continue to apply the current statutory provision that caps project-basing of tenant-based vouchers to 20 percent. This was done to preserve the core feature of the popular voucher program—freedom of housing choice for families. When a tenant-based voucher is used for project-basing, the family must live in the project-based unit initially and cannot select a unit of the family's choice. It is important to note that within the 20 percent cap of project-basing, PHAs will have much greater flexibility on how to project-base vouchers and develop additional affordable housing units.

PUBLIC HOUSING CAPITAL FUND—FREEDOM TO HOUSE DEMONSTRATION

Question. HUD is requesting \$5 million within the Capital Fund to administer the Freedom to House Demonstration, which is designed to test new ways for PHAs to manage their assets. This new 100 PHA demonstration is based on the Moving to Work "Block Grant" Demonstration. From reports developed by Abt Associates on the MTW demonstration, it appears that only a few PHAs have utilized this type of MTW model and the results are not all in. What have we learned from the MTW Block Grant demonstration?

Answer. In accordance with Section 204 of the Omnibus Consolidated Reversions and Appropriations Act of 1996, a report on the evaluation of the Moving to Work Demonstration program (MTW) was submitted to Congress in January 2004.

The evaluation of the MTW program, as contained in the January 2004 report, finds that MTW initiatives include experimentation with changes in three main areas: (1) merged funding assistance, (2) subsidy formulas, rent rules and time limits, and (3) HUD procedural and reporting requirements. Based on the three goals of the MTW demonstration as stated in the Appropriations Act, following are some determinations about whether or not deregulation and the initiatives implemented by the MTW sites are factors that contributed to PHAs achieving these goals:

—Changes in administrative procedures and reporting requirements resulted in more rational and efficient use of time and resources.

- An administrative benefit resulting from the simplification of rent rules and subsidy calculations is that tenants are less likely to under-report their income and staff are less likely to miscalculate tenant rent.
- Many PHAs focused on changes to rent rules and/or subsidy formulas to increase employment and self-sufficiency among assisted households.
- Some PHAs were able to expand housing choice by using their funding fungibility to help finance the acquisition or production of more assisted housing units (one-for-one replacement of public housing units demolished under HOPE VI, building larger units to suit larger families, scattered site acquisitions, and increasing the stock of affordable rental units for voucher holders in tight rental markets).
- Some PHAs merged their public housing and voucher program waiting lists to make the application process more efficient for staff, and less burdensome and easier to understand for applicants in an effort to give residents increased choice about housing type.

Question. What are the successes and what are the problems these PHAs face? Answer. Participating PHAs have realized some interesting results while experimenting with: (1) Alternatives to the standard approach for establishing tenant rents; (2) Time limits on the receipt of housing assistance; (3) Administrative streamlining (to cut costs and complexity); (4) Funding flexibility (by combining operating subsidies, modernization grants and Section 8 funding into a flexible funding stream); (5) Alternate development and financing arrangements to expand the stock of affordable housing.

Evidence to date suggests that deregulation of local HAs may yield benefits in terms of program design and implementation innovations.

For example, several participating PHAs have used the funding fungibility authority for standard program uses, but in a more flexible and efficient manner, to compensate for “losses” in one program area and to develop (through construction, acquisition or rehabilitation) new, affordable housing units. Some participating PHAs implemented changes in housing subsidy formulas with provisions (such as flat rents) that reward resident employment and income growth, and/or with provisions that penalize unemployment and/or with supplemental services and supports to help residents make progress towards self-sufficiency and/or with time limits on assistance. Many participants have used the demonstration to alter specific procedural and reporting requirements, including less frequent re-examination, merged waiting lists, local inspection standards and protocols and other streamlining and paperwork reduction initiatives.

The local flexibility and independence permitted under MTW appears to allow some PHAs to experiment with innovative solutions to local challenges, and to be more responsive to local conditions and priorities to an extent not otherwise permissible under standard rules.

Question. What has been the impact on extremely low-income families in these areas? More served, less served?

Answer. With respect to extremely low-income families (below 30 percent of median income), there are no measured effects of the demonstration on this group. However, the demonstration requires that participants “continue to serve substantially the same total number of eligible low income families (below 80 percent of median income) under MTW, and to maintain a comparable mix of families by family size, as would have been served or assisted if HUD funding sources had not been used under the MTW demonstration.” and that “at least 75 percent of the families assisted by the Agency under the MTW demonstration program be very low income families as defined in the 1937 Act” (below 50 percent of median income). MTW participants are monitored for compliance with these requirements, and no negative impacts have been noted to date.

Inquiries to several MTW PHAs confirm that agencies have continued to serve essentially the same income mix of households as they are required to do by program guidelines. In addition, trend data about all public and assisted tenant households indicate that the number of extremely low-income families assisted has increased even beyond statutory requirements. Before the Quality Housing and Work Responsibility Act (QHWRA) was enacted in 1998 71 percent of public housing program admissions were extremely low-income families. Today, 76 percent of public housing program admissions are extremely low-income families. In the voucher program, before QHWRA was enacted and an extremely low-income targeting requirement was established, 68 percent of voucher admissions were extremely low-income families. Today, extremely low-income families comprise 80 percent of all families served. In both the public housing and the voucher program, extremely low-income families exceed the targeted numbers of these families by 36 percent and 5 percent respectively.

Question. Also, what unique characteristics do these PHAs share?

Answer. Characteristics unique to these PHAs are hard to define, as the MTW participants vary greatly in size of program, location and performance status, etc. However, they do have one thing in common. All were interested in participating in the MTW demonstration and testing the effects of deregulation. In addition, these PHAs took the initiative to develop an MTW proposal and submitted it to HUD. Subsequently, they were selected for participation in the MTW demonstration in accordance with the Federal Register requirements.

Question. How would the new demonstration differ from the MTW Block Grant demonstration?

Answer. The Freedom to House demonstration differs in several ways from the MTW demonstration as follows:

- It will be conducted in a more controlled environment, where it will be easier to measure and quantify effects of various changes in policies on the public housing population. Under the Freedom to House demonstration, there will be test and control agencies.
- The number of participating agencies will be greater.
- The Freedom to House demonstration will be structured in such a way that time-consuming waiver requests will not be needed.
- The Freedom to House demonstration will require that participating PHAs implement project based accounting and management.

OVERLEASING

Question. Los Angeles has an overleasing problem in excess of some 5,000 vouchers and maybe many more. How big is this problem in Los Angeles and how big nationwide?

Answer. The Housing Authority of the City of Los Angeles is approximately 10 percent over-leased. Nationwide, there are 80 PHAs representing 3 percent of the PHAs affecting 3 percent of the total vouchers that have the potential of being over-leased in fiscal year 2004.

Question. Why didn't HUD catch this earlier and what is HUD doing to address the problem?

Answer. HUD did not detect this problem earlier because the PHA began the trend to over-lease late in calendar year 2003, especially as families who ported to other neighboring PHAs were charged to HACLA's leasing levels. HUD is addressing the problem through a Memorandum of Understanding that was signed in April 2004 that outlines specific actions that must be accomplished to reduce the leasing levels, in addition to other important management practices and policies that must be implemented to improve program performance.

Additionally, HUD has had staff on-site since April to assess the situation and to work with the agency to improve performance through intensive technical assistance and guidance. HUD will continue to have a presence in the agency until confident that all problems have been resolved.

Question. Has HUD looked at whether this funding represents an Anti-Deficiency Act violation and what are HUD's conclusions?

Answer. HUD's conclusion is that there has been no Anti-Deficiency Act violation. In the PHA 2003 fiscal year, the over-leasing occurred late in the year and was offset by the under-leasing that had occurred. The PHA ended the year at 99 percent utilization of authorized unit months, within the authorized level.

It is the 2004 calendar year (that began on January 1) that will have a financial impact as a result of the over-leasing because the PHA begins the year at approximately 110 percent. Since the appropriation prohibits HUD to provide funding for over-leasing, the PHA has implemented an aggressive attrition plan and HUD has required the agency to transfer back into the Section 8 account \$63 million in unobligated administrative fee reserves that had been transferred into other accounts. These funds are targeted to cover the cost of over-leasing during the period of attrition.

HOPE VI

Question. The Budget Request eliminates the HOPE VI program, which was funded at \$149 million in fiscal year 2004. The HUD Budget Justifications conclude that termination was appropriate because this program costs more than other programs that serve the same population (27 percent more costly than a voucher and 47 percent higher when all costs are included) and that projects are slow to move. However, this program accomplishes much more than the voucher program since it uses public housing capital investment to attract new investment to communities and helps to stabilize new communities.

Also, the Urban Institute in its Lessons from HOPE VI for the future of Public Housing echoed a 1998 Abt study that advised that public housing inventory has accumulated capital needs backlog of about \$18 billion, with an additional \$2 billion (\$1,679 per unit) accruing each year. Obviously the loss of HOPE VI funds plus the elimination of the Drug Elimination program several years ago has placed a larger and larger burden on PHAs, especially since the Operating Fund is underfunded per the formula every year. What is HUD proposing to do to address the growing problems associated with this deteriorating public housing stock?

Answer. Rather than funding new rounds of HOPE VI grantees in fiscal year 2005, it is prudent to allow the Department to aggressively manage and complete the grants currently awarded, many of which are years from completion. This pause will also give the Department time to develop better methods for assessing distress, develop new financing tools and delivery mechanisms that are less costly and more efficient. Of the 193 HOPE VI Revitalization sites, only 29 sites are completed. As of March 31, 2004, \$2.3 billion has not been expended out of \$5 billion in HOPE VI Revitalization Grant Awards.

HUD recognizes that there is an estimated \$18 billion capital backlog in the public housing inventory. While there is clearly serious need for investment in the inventory, it is not clear how much of this backlog is represented by severely distressed units needing wholesale demolition and replacement as articulated by HOPE VI. Current definitions used by HUD to define severe distress were developed in response to a sub-set of the public housing inventory that by and large no longer exists i.e., severely distressed, super-block, high-rise, public housing developments with significant social problems in major cities like Cabrini Green and Robert Taylor Homes in Chicago.

The Department feels that it is unwise to go forward with a full-scale revitalization program until it can complete a higher percentage of existing projects and develop a more quantifiable and accurate method for assessing severe distress. In its report, "Lessons Learned from HOPE VI for the Future of Public Housing," the Urban Institute acknowledged that due to the small number of completed sites and a lack of definitive data, it proved difficult to provide a rigorous analysis of the HOPE VI program. In fact, the Urban Institute could not conduct its study as directed because of a lack of projects that had progressed to a reasonable extent.

Nonetheless, the Department recognizes the importance of addressing the current capital backlog within the public housing inventory. In most cases this need can be more appropriately met through other modernization programs operated by the Department, e.g., the Capital Fund, Capital Fund Finance and Mixed-Finance development. The Department will encourage housing authorities in need of this assistance to submit project proposals to these programs. To date, the Department has approved over \$1.5 billion in transactions using Capital Fund Finance, with approximately \$500 million in additional funds in the pipeline.

NATIVE AMERICAN HOUSING BLOCK GRANT PROGRAM (NAHASDA)

Question. The Budget Request provides \$647 million for NAHASDA in fiscal year 2005, a decrease of \$3 million from the fiscal year 2004 level. As has been the problem with most block grant programs, this funding has been largely static since the creation of the program in 1996. What has been the overall growth or reduction in the program over the last 5 years?

Answer. The implementation of the Indian Housing Block Grant (IHBG) program began in fiscal year 1998. In fiscal year 2000, \$620 million was appropriated for the program; for fiscal years 2001 and 2002 the appropriated amounts were \$649 million each year; in fiscal year 2003, there was \$645 million; and in fiscal year 2004, \$650 million was appropriated.

The President's budget proposal for fiscal year 2005 includes \$647 million specifically for Native American housing under the IHBG program authorized under the Native American Housing Assistance and Self-Determination Act. Of that amount, approximately \$640 million is for direct, formula allocations through the IHBG program.

The Department made adjustments within the program in the fiscal year 2005 request to allow more funds to be available for direct tribal use. Reducing set-asides, results in an increase in IHBG grant dollars available to tribes. For example, in fiscal year 2004, \$2.72 million was set-aside for the Working Capital Fund. In fiscal year 2005, the Department requests only \$500,000 for this purpose.

On December 27, 2000, Congress created a new program, the Native Hawaiian Housing Block Grant (NHHBG) program (section 203 of the Omnibus Indian Advancement Act, Public Law 106-568). The NHHBG program, codified as Title VIII of the Native American Housing Assistance and Self-Determination Act (25 U.S.C.

4101 et seq.), provides the authority to support affordable housing activities on the Hawaiian Home Lands for Native Hawaiians eligible to reside there. The first year that funds were appropriated was fiscal year 2002, in the amount of \$9.6 million. The amount of \$9.6 million was appropriated in fiscal year 2003, and there is \$9.5 million for the program in fiscal year 2004. For fiscal year 2005, the President requested \$9.5 million for this program. There were across-the-board reductions in each fiscal year that reduced the amounts appropriated slightly.

Question. Is more or less housing being built?

Answer. Last year we reported that IHBG funding from fiscal year 1998 through fiscal year 2001, which was the most recent data available, resulted in an average of 2,149 units created each year. Data are derived from Annual Performance Reports and Indian Housing Plans, and reflect dwelling units started and completed. Figures are reliable to the extent those reports contain accurate information.

Data for fiscal year 2002 is now available. It shows that nationally, there were 896 rental units constructed, 164 rental units acquired, 1,625 homeownership units constructed and 426 homeownership units acquired using IHBG funds. This is a total of 3,111 units, nearly 1,000 more than the average of the previous 5 years.

Figures are affected by the transition from the way in which housing development funds were awarded competitively under the United States Housing Act of 1937, and the formula block grant allocation method under the IHBG authorized by the Native American Housing Assistance and Self-Determination Act of 1996, as amended. Numbers do not reflect "phased projects," where it may be necessary for a tribe or tribally designated housing entity (TDHE) to complete several pre-construction steps, such as acquisition of land and development of infrastructure prior to actual construction of dwelling units. Phased pre-construction activities are necessary in most areas of Indian Country, but somewhat more common in the East, the Midwest and the Northwest, less common in the Plains States. Alaska's phased construction is more the result of limited weather-related building seasons, materials acquisition challenges and smaller project sizes.

Question. Where do most of the funds go, rehabilitation, homeownership?

Answer. Last year HUD reported that, on average, during the 5-year period of fiscal year 1998 through fiscal year 2002, Indian tribes or their tribally designated housing entities (TDHE) have provided assistance designed to preserve the viability of 77,838 units each fiscal year.

Actual data on expenditures by category for fiscal year 2002 now exists. It shows that \$173 million was spent on modernization of dwelling units, \$2 million on rehabilitation of rental units, \$48 million on rehabilitation of homeownership units, \$86 million on construction of new homeownership units, \$27 million on acquisition of homeownership units, \$56 million on construction of new rental units and \$7 million for acquisition of new rental units.

The unit count includes moderate or substantial rehabilitation, and modernization and operating assistance related to units currently in management. It does not include other eligible affordable housing activities under the IHBG, such as down payment and buy down assistance, minor rehabilitation of under \$5,000, housing services, housing management services, crime prevention and safety, and model activities. The total does include Section 8 type programs operated by a tribe or TDHE. Figures are derived from Formula Current Assisted Stock (FCAS) data used to determine the FCAS allocation portion of the IHBG formula.

Other sources of funding that increase the availability of affordable housing and encourage homeownership; partnerships and leveraging funds to benefit Native American families include the Indian Community Development Block Grant Program, the Title VI Tribal Housing Activities Loan Guarantee Fund and the Section 184 Indian Housing Home Loan Guarantee Program.

Question. Have housing problems increased or decreased for low-income Native American families over the life of the program?

Answer. No studies have been conducted by the Department that address whether housing problems for low-income Native American families have increased or decreased during the life of the program.

HUD shares your concerns and values your observations regarding the housing needs in Native American communities. The Department believes that the President's budget request for HUD's Indian housing programs supports the progress being made by tribes in providing the housing needed throughout Indian Country. The Department is proud of its efforts and yet recognizes that much remains to be done.

HOMELESS VETERANS

Question. The Budget Request provides \$1.282 billion for Homeless Assistance Grants for fiscal year 2005, which is \$15 million above the fiscal year 2004 level. The administration set a goal of eliminating homelessness by 2012. While I find a Prisoner Reentry Initiative and Samaritan Housing Initiative interesting, I understand that veterans of the late and post-Vietnam period are 3 to 4 times more likely to become homeless as other Americans. While the VA needs to be more involved, HUD also needs to become more involved. What is HUD doing to specifically address this crisis?

Answer. HUD's Office of Special Needs Assistance Programs has taken some very direct steps to develop initiatives that target homeless assistance for veterans. Continuum of Care applicants for the Homeless Assistance competition are required each year to specify whether the proposed project will primarily serve veterans. Of the nearly \$1.3 billion in targeted homeless assistance awarded in 2003, 122 veteran-specific projects were awarded, totaling approximately \$40 million. In addition to these funds, HUD awarded \$583 million to 1,913 projects that indicated that they would serve homeless veterans among other homeless persons. During 2003, we estimate that approximately 62,000 homeless veterans were assisted through HUD's competitive homeless programs. Many thousands more were served through HUD's Emergency Shelter Grants Program and the Department's mainstream housing programs.

HUD has also developed collaborative interagency initiatives and relationships to address the administration's goal of ending chronic homelessness by 2012. Many chronically homeless persons, the most challenged subpopulation of all, are veterans. Our efforts to meet this goal have been broad and comprehensive, and our success in meeting this goal will have a proportional impact on veterans. The following are descriptions of these initiatives:

In the \$35 million HUD, HHS, and VA Collaborative Initiative to Help End Chronic Homelessness, the first program to specifically serve chronically homeless people, we required 10 percent of the funds be targeted to veterans. HUD has provided \$20 million (70 percent) of the funding. While this collaboration focuses on housing and employment, the grantees also have to offer other essential wrap-around services, such as health care, education, and life skills. We believe that housing and jobs will help the chronically homeless persons become self-sufficient. Eleven communities were chosen from across the Nation to provide housing and services for approximately 900 chronically homeless persons. The proposed \$50 million Samaritan Initiative (HUD portion) will build on this model and will further increase our capacity to serve the veterans population within the overall targeted chronic homeless population.

The \$13.5 million HUD/DOL 5-year demonstration initiative with HUD's contribution at the \$10.2 million also focuses on housing and employment for chronically homeless persons. The HUD/DOL grants will enable persons who are chronically homeless to achieve employment and self-sufficiency through placement in permanent housing units, supplemented by "customized employment" strategies through local Workforce Investment Boards (WIB). It is expected that nearly 300 chronically homeless individuals will receive permanent housing and employment opportunities in five major cities. Many chronically homeless veterans will be included in this population.

PHASES-Technical Assistance is a grant program awarded in fiscal year 2004 to technical assistance providers to develop training products that address the special needs of homeless assistance providers that serve homeless veterans. The goal is to increase the capacity of these providers to successfully apply for HUD Continuum of Care Homeless Assistance funding. This will facilitate an increase in the number of funded housing and service projects that target homeless veterans.

CHRONIC HOMELESSNESS

Question. Two years ago, the administration announced the goal of eliminating chronic homelessness in 10 years. I also support this goal. Unfortunately, homelessness seems to be getting worse. A 25-city survey by the U.S. Conference of Mayors released in December 2003 found that request for shelter rose by 13 percent in 2003 while request for food assistance grew by 17 percent in fiscal year 2002. What new steps has HUD taken or will take to eliminate homelessness by 2012?

Answer. The administration has set a goal of eliminating chronic homelessness by 2012. HUD does not foresee a decline in need for homeless emergency and transitional housing in the short-run, as illustrated by the U.S. Conference of Mayor's survey. However, HUD's focus on continuing to build an inventory of permanent housing and integrating inter-Departmental services for the chronically homeless popu-

lation through the \$50 million Samaritan Initiative offers, according to recent research findings, the chance to gain significant savings in resources because the chronic homelessness have been found to disproportionately use emergency shelter and services. These resources can be then used to more efficiently address the needs of other homeless persons.

PROGRESS IN ELIMINATING CHRONIC HOMELESSNESS

Question. One of the key components of eliminating chronic homelessness is the creation of more permanent housing units. Another key component is preventing homelessness from occurring in the first place. First, what specific steps the Department has taken towards meeting the goal of ending chronic homelessness? Second, does the budget request include adequate funding to fully fund all expiring Shelter Plus Care housing contracts? Lastly, your budget justification notes that the Deputy Secretary has established a Departmental task force to identify mainstream HUD resources to help chronic homelessness. Can you give us an update on what the task force has accomplished so far? Second, does the budget request include adequate funding to fund fully all expiring shelter-plus-care housing contracts? Lastly, your budget justification notes that the Deputy Secretary has established a Departmental task force to identify mainstream HUD resources to help chronic homelessness. Can you give us an update on what the task force has accomplished thus far?

Answer. The Department has undertaken several steps itself and in concert with other Federal agencies to increase the focus on chronic homelessness, targets additional resources to this subpopulation and has local Continuums of Care (CoC) identify and address chronic homelessness in their planning and prioritization process. For example, HUD:

- Helped develop the chronic homeless initiative with HHS and VA; and contributed \$20 million of the \$35 million awarded. HUD's funds are for permanent housing; services are funded by HHS and VA.
- Jointly developed a \$13.5 million initiative with DOL for the chronically homeless. HUD contributed \$10 million toward this initiative, to be used for permanent housing activities.
- Awarded \$6.5 million in HOME recaptures, targeted to the chronically homeless.
- In concert with HHS and VA, and in consultation with the Interagency Council on Homelessness, introduced the Samaritan Initiative, a \$70 million joint effort that will fund local collaborative strategies to move chronically homeless individuals from the streets to permanent housing with supportive services. HUD is the lead agency and is providing \$50 million for this effort.
- Increased homeless assistance funding for each year of the administration to record levels in support of homeless people, including chronically homeless, and the prevention of those who are at-risk of homelessness.
- Co-sponsored with HHS, VA, and DOL to fund various policy academies to assist States in accessing mainstream services for the chronically homeless.
- Added chronic homelessness as a focus to the Continuum of Care planning process. CoC's must identify chronic homeless needs, develop a strategy to meet those needs and measure their progress in addressing those needs. In addition, added an overall requirement that 10 percent of HUD's entire homeless program appropriation be used for chronically homeless projects.
- Exceeded the homeless goals in HUD's Management Plan; funding the move of 34,307 (goal of 25,000) formerly homeless persons into HUD McKinney-Vento funded permanent housing and helping 45,217 (goal of 29,000) homeless adults move from transitional housing into permanent housing.
- Is working with over 425 Continuums of Care, covering 93 percent of the country, to establish Homeless Management Information Systems (HMIS), which are improving the collection and analysis of data and obtain an unduplicated count of homeless persons and families, including chronically homeless.
- Is working with other Federal agencies to ease access to mainstream housing and supportive services for chronically homeless, resulting in greater funding of housing rather than services. Currently, the McKinney-Vento homeless assistance grants fund both supportive services and housing.

The budget request contains full funding to meet Shelter Plus Care renewal needs.

The Deputy Secretary's Task Force continues to meet and assess HUD resources to help address chronic homelessness. The use of HOME recapture funds for projects targeted to the chronic homeless was an example of the Task Force's efforts.

HUD-VETERANS AFFAIRS SUPPORTIVE HOUSING

Question. I was disturbed to read a recent Washington Post article about the continuing plight of homeless veterans. One tool that has shown some success in addressing homeless veterans is the HUD-Veterans Affairs Supportive Housing or "HUD-VASH" program. How many HUD-VASH vouchers have been distributed to homeless veterans and how much money is HUD spending on this program? Besides HUD-VASH, what other steps has HUD taken to address the needs of homeless veterans?

Answer. Although the HUD-VASH program is authorized under Section 12 of the Homeless Veterans Comprehensive Assistance Act of 2001, the program has not received any new funding for many years since new VASH vouchers are only available if funds for new Section 8 incremental vouchers is provided. No incremental vouchers have been provided since 2001 because rapidly increasing costs of renewing vouchers has precluded funding to expand the base of vouchers under lease. In addition, the Department does not track the level of continued use of prior Section 8 VASH vouchers which is dependent upon local decisions.

A comprehensive outline of HUD's targeted plans and substantial actions to serve homeless veterans is addressed in the response to a previous question on this topic and it should be noted that all of HUD's homeless programs targeted to ending chronic homelessness as well as the historic McKinney-Vento Act programs serve a significant number of at-risk veterans and homeless veterans.

RURAL HOUSING AND ECONOMIC DEVELOPMENT

Question. The administration continues to seek the elimination of the Rural Housing and Economic Development program, arguing that enough is being done through other HUD programs such as HOME and CDBG, and that this program is small and duplicative of the RDA programs in the Department of Agriculture. However, rural housing remains underfunded in Agriculture and is a poor step-child of the crop subsidy programs in terms of size and attention. I would like your assessment of why this program is not needed, despite the fact that it added some 6,000 repaired or new affordable housing units in rural areas.

Answer. This proposal addresses GAO's suggestion to merge similar HUD and USDA programs in order to make the process more efficient and cost-effective as well as to consolidate capacity building activities. The elimination of RHED reflects the existence of duplicative HUD and USDA efforts and the fact that USDA has far greater of resources in this area.

USDA's fiscal year 2005 budget, per their submission, includes \$2.2 billion in budget authority for rural development and a projected overall program level of \$11.626 billion, consisting of grants, loans, and related assistance. The request includes \$2.6 billion in program level funds for the Rural Community Advancement Program and maintains the flexibility to transfer funding among programs in this area. The \$2.6 billion includes \$403 million in grant funding, including Community Facility, Rural Business Enterprise, and Water and Waste Disposal grants. The USDA Rural Housing Service program requests \$938 million in loans and grants and projects a fiscal year 2005 program level of \$5.3 billion. The grant portion is \$669 million of the total. It should also be noted that the Department of Agriculture fiscal year 2005 budget request also rescinds \$100 million for planning grants and innovation grants to Regional Boards from the Commodity Credit Corporation because, ". . . the program purpose is redundant with the mission of Rural Development as a whole and of the Rural Development Council around the country, which Rural Development supports". The HUD funding of \$25 million for the separate Rural Housing and Economic Development Program is overshadowed by USDA's resources and infrastructure, which support USDA's historic effort in these areas.

BROWNFIELDS ECONOMIC DEVELOPMENT INITIATIVE

Question. HUD is proposing the elimination of the Brownfields program because it is slow to expend funds and enough is being done through the CDBG program. How much Brownfields activity is being conducted through CDBG?

Answer. At present, there is no single activity code that captures all Brownfields cleanup and redevelopment in the reporting system for the CDBG program. The most recent activity expenditure report for the CDBG program breaks activities down into almost 100 activities, 3 of which directly address Brownfields activities: Clean-up of contaminated sites/Brownfields; Asbestos removal; and Lead-based paint testing and abatement. As a percentage of total CDBG expenditures for the last 3 fiscal years, the average for the above 3 categories was about 1.6 percent, or \$17.8 million. However, there are other CDBG activities that also capture

Brownfields redevelopment activity, including but not limited to the following: Acquisition; Clearance and demolition; Rehabilitation of privately owned commercial/industrial properties; Commercial/industrial infrastructure development; Commercial/industrial building acquisition, construction and rehabilitation; Parking facilities; Flood and drainage facilities; Water & sewer; and Street improvements. Taken together, these activities averaged another 2.9 percent, or up to \$32.2 million of the total expenditures of approximately \$11.1 billion over 3 years, a portion of which was undoubtedly expended on Brownfields redevelopment activities.

In the last comprehensive study of the use of CDBG funds for Brownfields redevelopment (“Redeveloping Brownfields: How States and Localities Use CDBG Funds”), HUD’s Office of Policy Development and Research found that CDBG expenditures for Brownfield activities ranged from about 2 percent to more than 20 percent of the total block grant in entitlement cities that tracked their use of CDBG funds for that purpose. Among these cities, CDBG expenditures for Brownfields-related activities ranged from \$200,000 to more than \$5,000,000 for an entire redevelopment project.

BROWNFIELDS DEVELOPMENT TIME

Question. How does the development time compare between CDBG and Brownfields?

Answer. It is difficult to compare the development time frame associated with Brownfields Economic Development Initiative BEDI- and CDBG-assisted development projects since BEDI projects have averaged more than \$40 million in total project costs involving full-scale redevelopment by the private sector while the latter tend to be of smaller scale and are frequently confined to the investigation and clean-up of a site for prospective redevelopment. BEDI grant funds must currently be used in conjunction with a Section 108 loan, which can add some additional processing time before the project can get underway.

OLDER SECTION 202 PROJECTS

Question. HUD is beginning to see a number of problems in the section 202 program where older 202 projects are no longer economically feasible due to either a backlog of repairs or outmoded designs that are no longer competitive with the marketplace. What is the extent of this problem and what is HUD proposing to do about it?

Answer. As the Section 202 portfolio continues to age similar to the FHA portfolio, the Department will continue to be faced with the challenge of dealing with older projects that are no longer economically feasible due to outmoded designs or in need of major repairs. In 2000, the Department was pleased when Congress passed legislation allowing for the prepayment and refinancing of Section 202 direct loans. The refinancing of these loans allows additional funds to be made available to modernize, rehabilitate and make the necessary major repairs to these projects. The Department understands that FHA insurance is a primary means for refinancing these loans that have Section 8 contracts that allow the low-income residents to live in these properties on a long-term basis.

Due to the increasing number of sponsors desiring FHA insurance to refinance these aging projects, the Department has been reviewing how to provide more flexibility in underwriting the FHA-insured loan. In recognition of the great need to assist these affordable elderly housing projects and preserve this housing stock, the Department is pleased to announce that a policy will be implemented to allow these loans to be underwritten at either the Section 8 rent or market rent, whichever is greater. This change should substantially enable more Section 202 projects to be refinanced through FHA and provide the needed capital to make the necessary repairs and improvements.

OFFICE OF LEAD HAZARD CONTROL

Question. I consider lead-based paint hazards one of the most significant problems facing low-income children in urban areas. It is a problem that can be solved within our lifetime, a problem with a finite cost. Unfortunately, the administration proposes elimination of the Bond-Mikulski Lead Hazard Elimination program, which is funded at \$50 million in fiscal year 2004. How does HUD justify that it is doing enough to address lead-based paint hazards?

Answer. HUD agrees that lead-based paint hazards in housing remains a significant problem that is solvable. The “Bond Mikulski Lead Hazard Elimination” program (also known as the Lead Hazard Reduction Demonstration program) has made an important contribution. The grantees have 350 units either underway or completed. Another 500 units have been tested to determine the precise location of lead-

based paint hazards. In all, over 6,000 units will be completed under the first round of funding for this program and the second round will support additional units. These two rounds of funding will allow for targeting of funds to areas of high need and will further allow these grantees to mature their capacity and effort. With this maturation, the Department believes that these efforts can be best accommodated by integrating all efforts into the regular grant program. The fiscal year 2005 request reflects a \$14.8 million increase for the regular grant program and we believe that these increased funds are sufficient to make the progress necessary to meet our target to eliminate lead-based paint poisoning by 2010.

ZERO DOWNPAYMENT

Question. The administration is proposing a number of FHA mortgage insurance program changes, including creating a Zero Downpayment program where all fees and costs are rolled into the mortgage (this proposal poses substantial financial risks to the FHA Single Family Mortgage Insurance program—there are no disincentive against placing high-risk families in homes and new homeowners have no stake in these homes and obviously have no cushion to pay for any big ticket costs such as a failed furnace or leaky roof. From a historical perspective, FHA was almost bankrupt in the late 1980's due to defaults from housing families with high loan-to-value ratios which also helped to tip marginal neighborhoods where FHA foreclosures helped to drive down the value of other housing in a neighborhood.)

More troubling, the IG audit of the FHA financial statements, dated November 25, 2003, states, in relevant part, that FHA defaults rose from 2.76 percent in fiscal year 1999 to 4.25 percent in fiscal year 2002. More importantly, loans made in 1999 through 2001 contributed to over 50 percent of the total defaults in fiscal year 2002. In addition, claims rose 31 percent in fiscal year 2003 to over 85,000 claims, and FHA paid claims of \$5.5 billion in fiscal year 2002 which rose to \$7.8 billion in fiscal year 2003.

This is not to say that the FHA Mutual Mortgage Insurance Fund is not adequately capitalized. The actuarial study indicates that the MMIF is adequately capitalized and likely will be for years to come. However, there are serious issues with some of the estimates in the study. As I understand it, the 2002 actuarial study projected that economic value of the fund at end of fiscal year 2003 would be \$27.3 billion with the new estimate for fiscal year 2003 being \$22.7 billion. This represents a \$4.6 billion flaw which raises serious questions over the need for new economic models which would include borrower credit data to provide a better glimpse into the credit and default risk of the FHA book of business.

In addition, FHA share of the home purchase loan market fell by 16.5 percent in 2003 after falling by 1.4 percent in 2002 and 1 percent in 2001. In contrast, overall purchase loan originations by loan number went up in each of these years with 2003 being a record year for home sales. This and other data suggest that there is growing deterioration in the credit-quality of the FHA book of business; that FHA is essentially pricing itself into underwriting the highest risk mortgages.

HUD seems to be making a decision in the FHA Zero Downpayment program that it can afford to house as many people as possible, no matter the cost of default to the fund over time or the impact of a family's credit in the future. Is this the policy reason for proposing the Zero Downpayment program?

Answer. FHA has designed a Zero Downpayment program to serve borrowers who meet FHA's existing underwriting criteria, but lack the savings to pay a downpayment and closing costs. FHA expects Zero Down claim rates to be higher than those for the regular program and plans to charge a mortgage insurance premium sufficient to cover the costs that it expects to incur.

To reduce the risks associated with the program, FHA plans to require pre-purchase counseling and the use of the TOTAL mortgage scorecard in loan underwriting.

FHA RISK

Question. As discussed, the FHA Zero Downpayment program appears to be structured to encourage the highest risk homebuyers to use FHA. Why is HUD structuring its portfolio this way? What oversight requirements has FHA imposed to ensure that mortgage underwriters do not make available mortgage insurance to high-risk, non-creditworthy homebuyers?

Answer. HUD disagrees that borrowers without the cash to close represent "the highest risk" homebuyers. The mortgage industry, in developing automated risk assessments tools, has discovered that the downpayment is much less of a factor in predicting default than previously thought. FHA's own mortgage scorecard, TOTAL, also confirmed that the borrower's credit and the payment-to-income ratio were

much more powerful predictors of risk than the initial equity. It is in fact “risk layering” that represents the highest risk homebuyers. Further, the cash not used at loan settlement becomes available during the early months of the mortgage for payments, minor repairs, and the other costs associated with moving to a new home. By offering its own Zero Downpayment program, HUD will be able to adopt underwriting requirements, structure its insurance premiums, and add loss mitigation tools to ensure the financial stability of the mortgage insurance fund.

FHA will require that all mortgages be risk assessed by its TOTAL mortgage scorecard, which looks at credit, and application variables found to be predictive of loan performance. While those applications that are “referred” (i.e., the outcome of the risk-assessment was not an “approve”) to an underwriter for a personal review will not all be rejected, FHA expects a substantial portion of referred loans to be denied as these represent the greatest risk. FHA also intends to aggressively monitor loan performance as well as lender performance under this program and prohibit participation rights to lenders with unacceptably high claim and default rates, as we do in the regular program.

DEFAULTED HOUSING

Question. Dr. Weicher, in the late 1980’s, you served HUD Secretary Kemp as the Assistant Secretary for Policy Development and Research. During that time, you were responsible for legislation designed to increase the actuarial soundness of the fund which included requirements that homebuyer have a stake in the home through reasonable downpayments. One of the most significant concerns at the time was the impact of defaulted FHA housing on neighborhoods. As you know, through predatory lending issues, defaulted and distressed FHA properties remain a tremendous burden on communities, many of which are fragile. How is HUD expecting to specifically address this issue in the FHA Zero Downpayment program?

Answer. FHA will promote use of its Loss Mitigation Program by the servicing lender as a means of curing default instances. Loss Mitigation options include Special Forbearance, a structured repayment plan, Mortgage Modification, a recasting of the terms of the mortgage and Partial Claim, a loan from HUD secured by a subordinate note that becomes due upon payoff of the first mortgage. Non-home retention options for borrowers, who can no longer maintain ownership, but wish to avoid the stigma of foreclosure, are Deed-in-Lieu and Preforeclosure sale. Use of the Loss Mitigation Program has increased markedly since program inception in 1996, and is credited with a cure ratio of better than 70 percent per instance of use.

HUD measures and enforces use of loss mitigation by lenders through a scoring system called the Tier Ranking System (TRS) developed and monitored by HUD’s National Servicing Center (NSC) in Oklahoma City. Since its inception, the Department has seen a dramatic improvement in the utilization of loss mitigation, and most importantly, an increase in home retention for borrowers. TRS has been widely accepted in the industry and will play a critical role in measuring both the effectiveness of Loss Mitigation Tools and also the lenders’ servicing of their borrowers.

Providing assistance, as needed, to enable families to retain their homes and cure their delinquencies stabilizes neighborhoods that might otherwise suffer from deterioration and problems associated with vacant and abandoned properties. Avoidance of foreclosure and the resultant losses further stabilize the mortgage insurance premiums charged by FHA and the Federal budget receipts generated from those premiums.

HUD’s commitment to community revitalization presents a second level of effort designed to reduce future incidences of foreclosure. When local governments identify neighborhoods with high rates of foreclosure and vacant properties, and they commit an investment of their own resources to solutions, HUD will designate such neighborhoods as revitalization areas and offer special sales incentives on HUD-owned (foreclosed) properties. Those properties in revitalization areas are first offered for sale at a deep (50 percent) discount to law officers, teachers and firemen committing to owner occupancy for a minimum of 3 years. Remaining properties are then offered at discounts of up to 50 percent to cities and their nonprofit partners who agree to rehabilitate the properties and resell them to mid- and low-income owner-occupant buyers.

PROPERTY HOLDING PERIOD AND COSTS

Question. What are the current holding periods for defaulted FHA housing and what is the average daily cost for holding this housing?

Answer. As of May 31, 2004, the average current holding period for defaulted FHA housing was 155 days. As of May 31, 2004, FHA’s on-hand inventory was

28,602. Based on that portfolio, it costs the Department approximately \$1,080,000 in daily holding expenses.

PRIVATE SECTOR COMPARISONS

Question. How does this compare with the private sector?

Answer. HUD does not have comparable private sector data.

TIME IN FORECLOSURE

Question. What is the current average time for foreclosing on a FHA property that is more than 90 days in arrears?

Answer. The average time for foreclosing on an FHA property was 8.3 months for fiscal year 2003.

LOSS MITIGATION

Question. How is HUD dealing with FHA homeowners that have payment problems?

Answer. HUD has loss mitigation programs used by mortgagees to help FHA homeowners who have payment problems retain their homes. Also, HUD has counseling programs to aid homeowners in learning how to minimize payment problems.

SECTION 8 ADMINISTRATIVE FEES

Question. The new HUD Section 8 Block Grant would cap administrative fees for PHAs at 7 percent. This is a big reduction. As you know, many small and rural PHAs are already underpaid by the current section 8 administrative fee scheme. Has HUD analyzed the impact of these proposed requirements on PHAs? If not HUD needs to conduct this review and submit for the record an assessment of the impact on PHAs, especially rural and small PHAs.

Answer. The Department's original Flexible Voucher proposal did include a 7 percent base administrative fee to be paid to PHAs, with an additional 2 percent of the total fee account set aside for high performance. The base fee was reduced on the fact that the flexibility in the proposal will reduce administrative costs of PHAs.

Subsequent to the proposal, further analysis did identify that the reduction of the base level to 7 percent would impose a disparate effect on some PHAs. The overall level of funding included in the account is adequate for the proposal and HUD is exploring other methods to distribute a fee structure that will provide an adequate funding level to administer the program. There are several proposals under review, and a recommendation will be made very soon.

CONTRACT RENEWALS (HCF)

Question. HUD is requesting \$16.92 billion for fiscal year 2005—a reduction of \$715 million. These funds would be used to renew expiring tenant-based and project-based rental assistance contracts and for other purposes. How was the fiscal year 2005 request for \$16.92 billion calculated?

Answer. From 1998 to 2004, the Housing Certificate Fund has grown from 36 percent to 51 percent of the HUD budget. During that same time period the budget authority for the Housing Certificate Fund alone has risen 105 percent. By comparison, the increase for the non-Section 8 portions of the Department's budget have risen only 13 percent since 1998. This rate of increase is unsustainable. Without reform, reduction in the number of families served by the voucher program is inevitable.

The President's Budget for fiscal year 2005 proposes the new Flexible Voucher Program. HUD believes that the improved design of the new Flexible Voucher Program can help a greater number of families afford decent housing. The Flexible Voucher proposal would allow public housing agencies to adopt rent structures and other policies that will enhance self-sufficiency and reduce long-term dependency.

The funding level for the Housing Certificate Fund, of which the Flexible Voucher Program is a significant portion, was determined by taking into account projected leasing levels in the tenant-based program (97 percent) as well as the renewal of existing project-based contracts. Additional amounts were added to cover administrative fees, a central reserve, and anticipated tenant protection needs based on historical usage. Funds for contract administrators and the Working Capital Fund were also included. Finally, the first year savings from the Flexible Voucher Program, both programmatic and administrative, were subtracted from the total amount. The result is a reasonable and responsible funding level for the Housing Certificate Fund that provides for the long-term stability of the Section 8 program.

Question. The following questions assume that changes to the current program have not been authorized for fiscal year 2005. Would this funding level be sufficient to fund renewal of all rental assistance units currently under lease?

Answer. No, the amount of funding requested for fiscal year 2005 assumes adoption of the Flexible Voucher Program. This funding level would not be adequate if there are no changes to the current program to reduce the cost of providing assistance.

Question. Would Central Reserve funds be available to make up any shortfalls in renewal funding?

Answer. Only to the extent that additional funding was not provided to fund vouchers at a per unit cost above the adjusted August 1, 2003 cap. However, should Congress change this through subsequent legislation the amount requested for the Central Reserve would be significantly inadequate to address the shortfall for renewals should the requested funding level be enacted without the reforms of the Flexible Voucher Program.

RENTAL ASSISTANCE (HCF)

Question. HUD is requesting \$163 million for fiscal year 2005—a reduction of \$43 million. Rental Assistance funds would be used for relocation and replacement of housing units demolished pursuant to the Omnibus Consolidated Rescissions and Appropriations Act of 1996 (Public Law 104–134). According to HUD’s budget justification, the rental assistance program will have \$386 million in fiscal year 2004 resources, yet the Budget Appendix estimates \$217 million in fiscal year 2004 obligations by program activity. Obligations by program activity are estimated to be \$163 million for fiscal year 2005. In the past several years, demand has been limited, resulting in large carryover balances. How does HUD define obligations by program activity as used in the Budget Appendix?

Answer. “Obligations by Program Activity” provides a breakout of anticipated obligations in the Housing Certificate Fund by program line item.

Question. How was the fiscal year 2005 request for \$163 million calculated?

Answer. The request of \$163 million in new Budget Authority for Rental Assistance funds was calculated by multiplying the projected fiscal year 2005 per units cost (\$6,287) times the projected need of 25,927 units based on historical usage.

Question. How much fiscal year 2004 program carryover does HUD estimate will be available at the start of fiscal year 2005?

Answer. It is currently anticipated that \$170 million will carryover from fiscal year 2004 into fiscal year 2005.

RENTAL HOUSING (HCF)

Question. Could part of the \$386 million available resources for fiscal year 2004 be used to offset the fiscal year 2005 request for \$163 million?

Answer. The anticipated carryover of Rental Assistance funds into fiscal year 2005 has already been taken into account as part of the \$1.6 billion proposed rescission.

CENTRAL RESERVE FUND

Question. HUD is requesting \$100 million for fiscal year 2005—a reduction of \$36 million. The Central Reserve was created in 2003 and funded at \$389 million. HUD’s budget justification indicates that \$423 million in total resources will be available in fiscal year 2004. HUD indicated previously that the Central Reserve would be obligated in full by the end of fiscal year 2004. HUD obligated \$105 million in fiscal year 2003 and would have to obligate almost 4 times as much in fiscal year 2004 to “fully obligate” these funds by the end of 2004. What formula was used to determine the original estimate for the reserve?

Answer. The Department did not request funding for a Central Reserve in fiscal year 2003. The creation of the Central Reserve, and the determination of its funding level in fiscal year 2003 was the result of Congressional decision-making. As such, the Department is unable articulate the formula that was used to determine the original estimate for the reserve.

Question. What is the current estimate for obligations for fiscal year 2004?

Answer. Taking into account carryover, as well as new appropriations, it is estimated that \$336 million in Central Reserve funds will be obligated in fiscal year 2004.

Question. For fiscal year 2003, how much Central Reserve funding was obligated to (1) assist PHAs to lease up to their authorized baselines under the Housing Choice Voucher program and (2) fund unanticipated rental unit cost increases?

Answer. In fiscal year 2003, the Department obligated the following amounts in the Central Fund:

- Increase Cost—\$69,085,492;
- Increase Leasing—\$5,056,000;
- Reserves Restoration—\$31,193,000.

Question. How much carryover does HUD currently estimate will be available at the start of fiscal year 2005?

Answer. The Department anticipates that all Central Reserve funds will be fully utilized by the end of fiscal year 2004.

Question. Could part of the \$423 million available resources for fiscal year 2004 be used to offset the current request in fiscal year 2005 of \$100 million?

Answer. No. The Department expects that these funds will be fully utilized by the end of fiscal year 2004.

Question. Are Central Reserve funds no-year, 1-year, or multi-year funds?

Answer. Central Reserve funds, as well as all funds in the Housing Certificate Fund appropriation, are no-year funds.

Question. What was the national utilization rate for the Housing Choice Voucher Program in fiscal year 2002 and in fiscal year 2003?

Answer. The fiscal year 2002 unit-based utilization rate was 88.9 percent and for fiscal year 2003 the utilization rate was 94.9 percent.

CAPITAL FUND TECHNICAL ASSISTANCE AND MODERNIZATION

Question. HUD is requesting \$35 million in fiscal year 2005—a \$15 million reduction in assistance from fiscal year 2004. However, given fiscal year 2003 and 2004 carryovers and obligations of \$34.5 million and \$55.5 million, respectively, HUD has reported that \$105 million is available in fiscal year 2004 for technical assistance. If HUD obligates amounts in 2004 similar to that obligated in 2003, carryover balances alone (totaling \$71 million) could almost cover twice the total amount requested in 2005. What is the projected utilization for fiscal year 2004?

Answer. HUD expects to fully obligate all of its TA and modernization funding under the Public Housing Capital Fund to ensure a high utilization of resources.

Question. What is the projected carryover amount for fiscal year 2005?

Answer. The Fiscal Year 2005 Budget assumes that all funds under the Public Housing Capital Fund will be obligated; therefore, no funds are expected to carry over into fiscal year 2005.

Question. Can HUD absorb more of a reduction than that requested (given growing carryover amounts) without impacting the program?

Answer. The Department's technical assistance request is designed to ensure that the Department has the appropriate resources to carry out its statutory and legal requirement. In addition, the request insures that PHAs and other recipient of HUD resources have the appropriate level of assistance. A reduction to the 2005 request for technical assistance funding will cause disruptions in the provision of technical assistance to the Departments partners and clients. All carryover will be obligated by the end of this fiscal year.

Question. What analysis has been done to support the reduction in fiscal year 2005?

Answer. The 2005 technical assistance request is based on the estimated level of technical assistance that will be required to implement PIH programs and the Department's internal capacity to provide assistance.

CONTRACT ADMINISTRATORS

Question. According to HUD's budget justification, the fiscal year 2005 budget request proposes \$101.9 million in funding for the Contract Administrators program—an increase of about \$3 million. HUD's Budget Appendix reports actual obligations of \$170 million in fiscal year 2003 and estimates fiscal year 2004 obligations at \$217 million and fiscal year 2005 obligations at \$102 million. As of January 5, 2004, there were approximately 11,412 contracts under the Contract Administrators program, and HUD estimates that the program will include 18,445 contracts by fiscal year 2005. The Department proposes funding \$275 million in program activity in fiscal year 2005, yet the budget appendix estimates obligations by program activity for fiscal year 2005 of \$102 million.

How does the Department define program activity (in the budget justification) and obligations by program activity (in the Budget Appendix)? What is the difference?

Answer. The \$275 million in the Budget Justification represents total program obligations expected to be funded from all sources in fiscal year 2005 including carryover, new budget authority and other sources. The \$102 million in the Budget Ap-

pendix represents obligations supportable only by the new BA requested in fiscal year 2005—\$101.9 million.

Question. How was the fiscal year 2005 request for \$101.9 million calculated?

Answer. Represents \$100 million fiscal year 2004 request increased by a 1.9 percent inflation factor. Remaining funding requirements in fiscal year 2005 to be derived from carryover and use of funds made available under the Housing Certificate Fund heading.

Question. What is the total number of contracts under HUD's Section 8 project-based program?

Answer. There are 18,975 active contracts, as of September 30, 2003.

Question. How many Section 8 contracts were funded under the Contract Administrators program in fiscal year 2002 and 2003?

Answer. Contracts assigned to Contract Administrators are as follows:

—Fiscal year 2002—1,401 Contracts;

—Fiscal year 2003—306 Contracts.

It is expected that additional geographic areas will be added to the program in fiscal year 2004 including: District of Columbia, Connecticut, Arkansas, Virginia, Northern California, Florida, Illinois, Utah and Nebraska. Several of these entities have been pending resolution of legal issues, which have now largely been resolved. It is expected that these areas will begin participating within the next several months during fiscal year 2004. This will lead to an increase in obligation activity in both fiscal years 2004 and 2005.

Question. What is HUD's latest estimate for obligations in fiscal year 2004?

Answer. The latest estimate for obligations in fiscal year 2004 is \$185 million.

Question. How much carryover does HUD estimate will be available at the start of fiscal year 2005?

Answer. HUD estimates \$32.1 million will be available at the start of fiscal year 2005.

Question. How can estimated obligations fall to \$102 million in fiscal year 2005 when the number of contracts in the program will be increasing from under 12,000 to over 18,000?

Answer. The \$102 million in estimated obligations for fiscal year 2005 are from fiscal year 2005 appropriations only. Total estimated obligations in fiscal year 2005 are estimated to be \$275 million.

EMERGENCY CAPITAL NEEDS

Question. HUD is requesting \$50 million—an increase of about \$10 million over fiscal year 2004—in reserves for public housing authorities emergencies and natural disasters. According to the Budget Appendix, these funds are allocated according to the Department's approved plan. Trends in the resources for this program shows HUD obligating about \$9.5 million in 2003 with carryover balances in the program totaling \$40.1 million. Given additional budget authority approved in fiscal year 2004, current resources available in the program are almost \$80 million. Please provide a copy of the approved plan.

Answer. The reference in the Fiscal Year 2005 Budget Appendix to "a Department-approved plan" refers to the plans submitted by the PHA at the time of their request to justify their need for emergency capital funding. Accordingly, at this time, there is no approved plan indicating how the Department will allocate these funds. By their nature, emergencies and disasters are unplanned events, so a funding plan cannot be developed in advance of the need, but will be developed as emergencies and disaster applications are received. It should be noted that HUD believes that it is restricted by appropriation language in terms of how funding set aside for emergencies and natural disasters can be used: HUD can only use funds that correspond to the year the emergency or natural disaster occurred. This restriction limits HUD's flexibility to respond to these unforeseen events.

Question. What analysis has the Department done to justify the need for the current request for \$50 million in fiscal year 2005?

Answer. By their nature, it is impossible to predict emergencies and disasters. Projections can only be based on past experience. Therefore, the fiscal year 2005 request for \$50 million is based on an analysis of the fiscal year 2000 through 2003 emergency/disaster funds that were requested by the Field Office and the amounts that were substantiated by Headquarter staff and approved for obligation by the Field Office. The substantiated and approved amounts for fiscal years 2000–2003 are as follows:

Fiscal Year	Fund Requests Substantiated and Approved for Obligation
2000	\$62,115,061
2001	32,330,995
2002	10,148,605
2003	24,175,275

The estimated requirements of \$50 million for fiscal year 2005 is also based on the pending requests for fiscal year 2003 carryover funds of \$40 million. These pending requests exceed the amount made available for fiscal year 2003, and all of the fiscal year 2003 emergency and disaster monies will be used to fund events that occurred in fiscal year 2003.

Question. What are the projected spend-outs, and utilization in the program?

Answer. By their nature, it is impossible to predict disasters. Projections can only be based on past experience. Although PIH has carried over \$40 million from fiscal year 2003, claims for these funds exceed the amount available. To date, PIH has obligated \$22,159,440. It usually takes a significant amount of time for a PHA to recover from the emergency/disaster event and submit a request for funding to PIH for review. It takes additional time for PIH to substantiate the requests that it receives. The necessary delay often results in PIH carrying over funds from this set-aside to the following fiscal year. PIH is in the process of substantiating the few remaining claims from fiscal year 2003 that remain pending. PIH anticipates that virtually all of the fiscal year 2003 funding set-aside for emergencies and disasters will be exhausted to fund disasters that occurred in fiscal year 2003.

Question. To what extent does the current request include allocations to public housing authorities in New York for the 9/11 disasters? If so, does this take into account supplemental funds appropriated for the New York disaster?

Answer. PIH has not received any requests from the New York City Public Housing Agencies to provide funding related to the 9/11 disaster.

AMERICAN DREAM DOWNPAYMENT INITIATIVE (ADDI)

Question. The administration is proposing \$200 million for this program in fiscal year 2005 for assistance to low income homebuyers in need of down payment assistance that will be distributed by a separate formula to participating jurisdictions and States. The distribution formula is described in the program's authorizing legislation signed into law December 16, 2003. (Note.—The distribution formula is outlined in HUD's congressional budget justification). It received \$87.5 million last year. HUD's original request in fiscal year 2004 (\$200 million) was derived based on an estimate of \$5,000 per loan down payment for 40,000 loans. HUD estimates the fiscal year 2005 request will assist 3,000 families in fiscal year 2005 and 40,000 over time. What analysis has been done to determine that \$5,000 per loan for 40,000 loans might be needed?

Answer. The average cash needed for a family at 50 percent of median income for downpayment and closing costs on a home whose sales price was at 50 percent of the Median Sales Price for the area ranged from \$4,380 (in the West) down to \$2,620 (in the South) according to a 2000 study conducted by LISC ("Minding the Gap"). Using the mid-range average of \$3,660 (in the Northeast) and assuming a 5 percent increase in home prices per year since the 1999 American Housing Survey data used in the study, the cash needed would be \$4,671. This figure was rounded up to \$5,000 to determine the number of families that would be assisted with ADDI since eligible properties in the HOME program are those up to 95 percent of median income while "low-income" is capped at 80 percent of median, thus having the overall effect of raising the average amount needed for downpayment and closing costs overall.

Question. What analysis has been done to determine that 3,000 families would be assisted in fiscal year 2005 and 40,000 over time? How long a period does "over time" cover?

Answer. Since the provision of downpayment assistance through ADDI is much less complicated and more focused than HOME assistance, an outlay level of up to 10 percent can be anticipated over the first year. During fiscal year 2005, assistance will be provided predominantly from fiscal year 2003 and fiscal year 2004 ADDI funding which totaled a combined \$161 million (32,000 families assisted over time at \$5,000 each on average). Fiscal year 2003 and fiscal year 2004 ADDI funds will become available to participating jurisdictions mostly during the fourth quarter of fiscal year 2004 following publication of the interim rule reflecting the enacted legis-

lation of December 2003. This being the case, the program will only have been in place for approximately 1 year by the end of fiscal year 2005. At a 10 percent outlay level, approximately \$16 million will have been disbursed and at least 3,000 households assisted during that period.

“Over time” is that time period required to spend out all fiscal year 2005 ADDI funds, assumed to be 4 or 5 years. The 40,000 “over time” figure is obtained by dividing the \$200 million requested level by an average per household assistance level of \$5,000.

ADDI FUNDING FOR FISCAL YEAR 2004

Question. Why was only \$87.5 million approved in 2004?

Answer. The President’s Fiscal Year 2004 Budget requested \$200 million; however, the fiscal year 2004 Consolidated Appropriations Act provided \$87.5 million (pre-rescission).

STUDY ON USE OF HOME FUNDS FOR HOMEBUYER ACTIVITIES

Question. Has HUD completed the study on the use of HOME funds for homebuyer activities? If so, please provide a copy.

Answer. Yes, the Department has completed the study of HOME-assisted homebuyer programs. The basis of the analysis on production was derived from IDIS information, which provides data on the number of homebuyers assisted, the average amount of assistance and the demographics of those served, e.g. the percentage of minority homebuyers. The purpose of the study was to further examine trends in IDIS, e.g. the increase in funding directed to homebuyers over time as well as study characteristics of programs not reflected in current IDIS data, such as the incidence of homebuyer counseling, the neighborhood choices of assisted buyers, who is being served, income level, family size etc. The study provides valuable insights that inform the implementation of ADDI. A copy of the study is attached. The study can also be found on the web at: <http://www.huduser.org/publications/hsgfin/homebuy.html>.

RULING ON ALLOCATION OF ADDI FUNDS

Question. Has HUD completed the ruling for allocation of the funds? If so, please provide a copy.

Answer. The ADDI interim rule was published in the Federal Register on March 30, 2004. The rule was effective on April 29, 2004. A copy is provided. The text of the rule can also be viewed at the following URL: <http://www.hud.gov/offices/cpd/affordablehousing/lawsandregs/regs/addi.pdf>.

ADDI funds are now available to HOME Program Participating Jurisdiction (PJs) and, depending upon the PJs program year start-date (e.g., January 1, July 1, etc.), prospective homebuyers may already be able to apply.

IMPACT OF ADDI LEGISLATION ON ALLOCATION OF FUNDS

Question. Did legislation impact the allocation formula for the American Dream program?

Answer. Yes, the legislation was very specific about the formula factor for the distribution of ADDI, providing an amount to each State equal to its share of the number of low-income households residing in rental housing. Local participating jurisdictions within each State would receive a portion of the allocation based on its share of the State-wide number of low-income households residing in rental housing if they had more than 150,000 in population or garnered more than \$50,000 in formula funds.

CONVERSION TO ASSISTED LIVING

Question. This fund provides grants to owners of existing HUD-subsidized elderly properties to convert some or all units in these properties to assisted living facilities. The Department is currently requesting \$30 million for fiscal year 2005, an increase of about \$5 million. Starting in fiscal year 2003, new budget authority for ACLP was reduced from about \$50 million to about \$25 million due to the low response from eligible owners. HUD has carried over about \$108 million from fiscal year 2002 into fiscal year 2003—of which \$39 million (plus another \$25 million in new BA) was made available to applicants in the fiscal year 2003 Notice of Funding Availability. What analysis has been done to support the current request of \$30 million for fiscal year 2005?

Answer. Carryover funds in the Conversion to Assisted Living Program amounted to \$83.1 million at the start of fiscal year 2004. Of this amount, \$25.3 million had been committed to projects and \$57.8 million remained unobligated.

A combination of increased outreach efforts and the implementation of the Emergency Capital Repair program will have the effect of utilizing available carryover balances as well as raising the annual level of program awards. It is anticipated that the combined program demand through the end of fiscal year 2005 will absorb both the available carryover and the \$30 million of new authority requested for fiscal year 2005.

Question. Can the current request be offset by carryover funds that will be made available again for the fiscal year 2004 Notice of Funding Availability?

Answer. Carryover funds in fiscal years 2004 and fiscal year 2005 will be part of the funding mix for the combined conversion and emergency repair program. The combined program is expected to generate sufficient demand to absorb both the carryover as well as the requested \$30 million of new appropriations requested for fiscal year 2005.

Question. Has participation in ALCP improved? Specifically, how many project owners applied for the ALCP funds in each year for fiscal years 2000 through 2003 and how much did they receive in grants?

Answer. Please see chart below.

Fiscal Year	Applications Received	Applications Funded	Amount Awarded (In Millions of Dollars)
2000	29	13	19.5
2001	22	12	21.2
2002	31	21	54.3
2003	13	9	15.4

Question. In the “Proposed Changes in Appropriations Language,” HUD states that part of the \$30 million may be used for emergency capital repairs. What share of this fund is set-aside for this purpose? And what analysis has been done to support this request?

Answer. While no hard analysis was done to substantiate the amount, the preliminary estimate for emergency capital repairs in fiscal year 2005 is \$10 million. This estimate was based on the numerous requests HUD has received for this type of funding. We believe that as awareness of the availability of these funds increases within the industry, demand will increase accordingly.

NEED FOR INCREASED FUNDING FOR SERVICE COORDINATORS/CONGREGATE SERVICE PROGRAMS

Question. HUD is requesting \$53 million in funding for Service Coordinators and to fund congregate housing service programs. This is a \$23 million increase over the fiscal year 2004 enacted level. What analysis has been done to justify the need for a \$23 million increase in this program?

Answer. Fiscal year 2004 request was based on approximately \$20 million in carryover being available in fiscal year 2004 to supplement the requested \$30 million. This provided a total programs level of almost \$50 million for fiscal year 2004. Based on activity to date, we fully anticipate utilizing the \$50 million by the end of fiscal year 2004.

The \$53 million funding requested for fiscal year 2005 will be sufficient to maintain funding at the historical levels while providing \$3 million for the Section 811 Housing for Persons with Disabilities program.

SELF-HELP HOMEOWNERSHIP OPPORTUNITY PROGRAM (SHOP)

Question. HUD is requesting \$65 million for the SHOP program—an increase of about \$38 million over the fiscal year 2004 enacted level. According to the budget justification, this increase is designed in part to support the administration’s goal to triple this program, and reflects the ability of the existing participants to expand their staffing outreach and production. While demand for such projects are demonstrated for two grant recipients, HUD has a total of \$51.9 million in resources at the end of fiscal year 2004. If HUD obligates what it has in the past (\$22 million) and the full amount requested (\$65 million) is granted, HUD would have about \$94 million available in fiscal year 2005 if the full requested amount was granted. Would projected program demand require over \$90 million in funding for fiscal year 2005?

Answer. Absolutely, SHOP grantees have completed construction on 11,025 housing units from all funding years as of December 31, 2003. The demand for the program has exceeded the supply as evidenced by the fact that the \$25 million made available under the NOFA process generated \$47 million in funding requests from applicants even though they were aware that available funding was constrained. In addition, both the demand for and capacity to use additional funds is further evidenced by the fact that only 486 out of 1,600 Habitat for Humanity affiliates have received SHOP funding since the program's inception in 1996 and only 200 currently participate in the program. The additional funds requested in fiscal year 2005 could be put to immediate use since many local affiliates of the existing national and regional grantees have not yet participated in the SHOP Program.

We continue to believe that this expanded funding for the SHOP program is a high priority since the average Federal per-unit SHOP investment has been a modest \$10,000. The homebuyer's required sweat equity contribution significantly reduces the cost of construction, and has result in home purchase prices as low as \$31,000. The program provides Homeownership opportunities for families with average incomes between 50 to 65 percent of area median income, some with incomes as low as \$15,000 per year. The unique structure of the SHOP program and the Federal subsidy solely for land costs provides the means to successfully reach families whose incomes normally make homeownership completely out of reach.

Finally, the fiscal year 2004 NOFA increased the Federal subsidy for land to up to \$15,000 recognizing that in some areas the cost of land has risen and the opportunities to acquire land for homeownership is becoming more difficult. Thus, the additional funding will reflect this fiscal year 2004 change and allow for a further increase in homeownership opportunities for families with very modest incomes who provide substantial sweat equity to make their dream of homeownership come true.

DEMOLITION GRANTS

Question. HUD proposes \$30 million for Demolition Grants in fiscal year 2005. Funds are to be used for relocation, demolition, and site remediation for obsolete and distressed public housing units. What analysis has been done to determine that \$30 million might be needed?

Answer. The Department estimates that there is a need for additional appropriated funds to be directed toward assisting PHAs in complying with the requirements of Section 202 Mandatory Conversions and Section 18 Demolition approvals. The set-aside will aid in expediting the actual demolition of units that the Department has already approved, but have not yet been demolished. Based on the Department's experience in the most recent HOPE VI Demolition grant competition, there is clearly a demand for such funds. HUD received applications requesting more than \$65 million for the most recent competition. However, the Notice of Funding Availability only made approximately \$40 million available.

Question. Does the HOPE VI program or other HUD programs cover similar activities and, if so, what might be covered by these grants that may not be covered by HOPE VI or other programs?

Answer. With the elimination of the HOPE VI program, such funds will no longer be available. These funds will be used to accomplish a portion of the demolition and related activities that were formally executed under the HOPE VI program. PHAs may use Public Housing Capital Fund monies to demolish public housing units. However, PHAs are faced with tough decisions whether to use these funds toward such costly demolition when there are so many other demanding needs. This is why the Department believes that setting aside \$30 million out of the \$2.7 billion requested in fiscal year 2005 for the Public Housing Capital Fund to target the most distressed units is more feasible than an individual PHA spending its limited Capital Fund for these purposes.

FREEDOM TO HOUSE DEMONSTRATION

Question. HUD is requesting up to \$5 million for the Freedom to House Demonstration Initiative. This Initiative will establish a demonstration program for 50 PHAs aimed at assessing the impact of locally determined public housing programs. It will build on certain elements of the Moving to Work demonstration by granting PHAs flexibility to manage their resources.

What analysis was done to justify \$5 million request amount?

Answer. The requested amount of \$5 million for the Freedom to House Initiative is based on the amount of funds appropriated in fiscal year 1996 to initiate the Moving to Work Demonstration program.

Question. Has the performance of the Moving to Work Demonstration been assessed? If so, what has resulted from that demonstration?

Answer. In accordance with Section 204 of the Omnibus Consolidated Reversions and Appropriations Act of 1996, a report on the evaluation of the Moving to Work Demonstration program (MTW) was submitted to Congress in January 2004.

The evaluation of the MTW program, as contained in the January 2004 report, finds that MTW initiatives include experimentation with changes in three main areas: (1) merged funding assistance, (2) subsidy formulas, rent rules and time limits, and (3) HUD procedural and reporting requirements. Based on the three goals of the MTW demonstration as stated in the Appropriations Act, following are some determinations about whether or not deregulation and the initiatives implemented by the MTW sites are factors that contributed to PHAs achieving these goals:

- Changes in administrative procedures and reporting requirements resulted in more rational and efficient use of time and resources.
- An administrative benefit resulting from the simplification of rent rules and subsidy calculations is that tenants are less likely to under-report their income and staff are less likely to miscalculate tenant rent.
- Many PHAs focused on changes to rent rules and/or subsidy formulas to increase employment and self-sufficiency among assisted households.
- Some PHAs were able to expand housing choice by using their funding fungibility to help finance the acquisition or production of more assisted housing units (one-for-one replacement of public housing units demolished under HOPE VI, building larger units to suit larger families, scattered site acquisitions, and increasing the stock of affordable rental units for voucher holders in tight rental markets).
- Some PHAs merged their public housing and voucher program waiting lists to make the application process more efficient for staff, and less burdensome and easier to understand for applicants in an effort to give residents increased choice about housing type.

PUBLIC HOUSING OPERATING FUND COST STUDY REPORT

Question. Please provide a copy of the June 6, 2003, Public Housing Operating Cost report.

Answer. Attached is a copy of the report. It can also be found at: http://www.gsd.harvard.edu/research/research_centers/phocs/documents.html.

ADMINISTRATIVE RECEIVERSHIPS

Question. HUD is requesting \$10 million to support the costs of administrative and judicial receiverships or other intervention activities. According to HUD, the average cost of a receivership is estimated at \$1 million per PHA. Therefore, it appears the office is planning to cover about 10 PHAs during fiscal year 2005.

How many PHAs have courts asserted operational authority over through judicial receivership?

Answer. Since 1985, four PHAs have been placed into judicial receivership: (1) Boston, MA, (2) Washington, DC, (3) Kansas City, MO, and (4) Chester, PA. Kansas City and Chester are still active judicial receiverships.

Question. How many PHAs has HUD taken over through administrative receivership?

Answer. Since 1985, 14 PHAs have been placed into administrative receivership. Eight of those PHAs remain in active administrative receivership. Of those 14 administrative receiverships, six have been returned to local control. A current listing of active administrative receiverships is below:

- 1. Beaumont, TX (Administrative)
- 2. Camden, NJ (Administrative) (Control to be returned by 6/30/04)
- 3. East St. Louis, IL (Administrative)
- 4. New Orleans, LA (Administrative)
- 5. Orange County Housing Authority, TX (Administrative)
- 6. Sanford, FL (Administrative)
- 7. Virgin Islands Housing Authority, VI (Administrative)
- 8. Wellston, MO (Administrative).

Administrative receiverships returned to local control:

- 1. Chicago, IL (Administrative)
- 2. LaFayette, LA (Administrative)
- 3. San Francisco, CA (Administrative)
- 4. Shelby County, TN (Administrative)
- 5. Springfield, IL (Administrative)
- 6. St. James Parrish, LA (Administrative).

Question. On what basis is HUD anticipating additional receiverships?

Answer. When PHA deficiencies are demonstrated to be at such a level that current local management of the authority is unable to effectively remedy the situation, alternative management through receiverships is the primary tool for corrective action available to the Department. The provisions for administrative receivership stem from the PHA's failure to substantially follow HUD requirements to maintain decent, safe and sanitary housing (substantial default) or for their breach of one or more of the provisions of the Annual Contributions Contract (ACC) they have with the Department which outlines the parameters for receiving Federal assistance in compliance with appropriate statutes, rules and regulations or their failure to meet "substantial improvement" under the PHAS regulations. In accordance with Section 6(j)(3)(A) and its subparts, of the 1937 Housing Act as amended, HUD anticipates that approximately four PHAs will not meet the requirements of meeting "substantial improvement" under the PHAS program in fiscal year 2005. HUD also anticipates another three to five PHAs which are currently experiencing management difficulties, either because of lack of effective managerial operations or failure to comply with HUD requirements in accordance with Section 6(f) which may be placed into administrative receivership in fiscal year 2005. It should be noted that though HUD's estimates demonstrate an average of \$1 million per receivership, that figure is just an average. Some receiverships, either full or partial, may come either under or over that average. Judges make the determination over which issues will be addressed under judicial receiverships. Consequently, these receiverships typically are more expensive than administrative receiverships. Every receivership action is unique. The level of resources and assistance necessary to bring the PHA back into compliance is dependent upon the extent of the PHA's management deficiencies, the size of the Authority and the overall financial and physical condition of the PHA. This level of funding should meet HUD's projections to adequately address the serious compliance and management problems faced by those severely non-compliant PHAs that, as a last resort, are placed into receivership for remedial action.

Question. Are compliance monitoring reviews indicating an increase, decrease, or the same number of PHAs likely entering receivership? Please provide copies of compliance review summaries.

Answer. Field Office program compliance reviews are used as one of several other indicators to identify PHAs which may likely enter into receivership. When determining which PHAs are in serious non-compliance thereby necessitating receivership, both program compliance and performance assessment information is used. From information residing in our performance data systems and communication provided by field staff, we are kept abreast of compliance violations. We have noticed a slight increase in the number of program compliance findings through our program compliance reviews and performance reviews conducted by field staff including but not limited to Independent Public Accountant Audits, field office program compliance reviews as well as our automated performance systems i.e., PHAS and SEMAP. Our early analysis suggests that this is a result of the Department's enhanced focus on monitoring IPA auditors through our aggressive quality assurance process, our enhanced monitoring of PHAs including the Rental Integrity Monitoring reviews and Section Eight Management Assessment Program confirmatory reviews as well as the full implementation of the PHAS program. Copies of program compliance review summaries are being retrieved from the relevant Field Offices archives and will be submitted by end of July.

Question. How have receiverships been funded in the past?

Answer. Historically, receiverships have been funded in a variety of ways including through the use of the PHA's own financial means, through technical assistance funds and Salaries and Expense funds. The Department's first goal is for the PHA's to use their own resources to fund receivership activities. Whenever HUD staff has been involved either through training or management oversight, we have used HUD appropriated Salaries and Expense funds to meet those needs. HUD has not had a separate funding account for PHAs in receivership because the Authority's operations and financial streams are not altered during the receivership. However, HUD has provided technical assistance monies to some PHAs in receivership to support training and other activities when the use of those dollars was eligible under the technical assistance set-asides appropriated to the Department. The current restrictions of the Capital Fund Technical Assistance Set-aside allow the use of TA funds for Troubled and near-troubled PHAs, but not receiverships.

Question. Is the request for funding in fiscal year 2005 1-year, no-year, or multi-year money?

Answer. This request is for no-year money.

VOLUNTARY GRADUATION BONUS

Question. HUD is requesting \$15 million to provide incentive awards to PHAs who increase graduation turnover rates. The program is intended to promote the concept that assisted housing is transitional, not permanent, by giving PHAs incentives to graduate more families out of assisted housing. HUD plans to award PHAs that exceed a baseline number of families that have exited public housing. Eligibility thresholds would be established for housing authorities depending on size and other program factors. What analysis has been done to justify that \$15 million might be needed for the program?

Answer. Currently HUD's Office of Public and Indian Housing administers five programs that specifically promote self sufficiency—the Resident Opportunity and Self Sufficiency program, which is made up of four smaller grants, and the Family Self-Sufficiency program. These programs range in cost between \$9 million and \$15 million annually. HUD believes that based on the above funding, the requested \$15 million in additional funds will reinforce and influence Housing Authorities to promote the concept that assisted housing is transitional, not permanent. The \$15 million is a small portion of funds available to support public housing programs, but is a starting point intended to encourage transition out of public housing without being such a large number as to be detrimental to the operation of public housing programs. This amount will be assessed as program activity unfolds.

Question. Has eligibility criteria for the program been established? If so, please document. If not, when does HUD plan to establish criteria?

Answer. The finalized eligibility criteria for the program has not been completed, however, HUD has narrowed its focus to one of two-measurement criteria; the average duration in public housing and the end of participation date. Under either methodology units for elderly and disabled will not be included.

Under the average duration in public housing measurement, PIH would create a variable that reflects the average length that a tenant resides in public housing at the authority. Once a baseline is established, the PHA would be measured by including the last measurement time frame data versus its baseline. If the overall duration has decreased, the PHA would be eligible for bonus funding. A new baseline would be established each year.

Under the end of participation measurement, PIH would establish a measure that looks only at the end of participation date or turnover rate. The calculation would be the difference between the end of participation date or turnover rate for the baseline period versus the last measurement time frame. If the end of participation were greater than the previous period, the PHA would be eligible for bonus funding. A new baseline would be established each year. HUD has already completed preliminary research and testing and is in the process of finalizing the final criteria and methodology.

DEVELOPMENT CHALLENGE PILOT

Question. HUD is requesting \$10 million to test ways to better coordinate, target, and leverage existing Federal community and economic development programs. The pilot awards new flexible grants in fiscal year 2005 to 5 to 10 communities that are prepared to commit to ambitious performance targets and to community participation in the governance of their development. HUD projects program improvements and offsets amounting to \$10 million in this program. What analysis has been done to justify that \$10 million might be needed for the program?

Answer. The President's Management Agenda, as well as the Government Performance and Results Act, call for Federal agencies to better integrate their budgets and program performance. This pilot will allow HUD to experiment with several communities to examine the benefit of various incentives to achieve closer program coordination and performance measurement. While a pure numerical analysis was difficult to do, the proposal will build on the experience and anecdotal evidence in a number of communities, including Richmond, VA, that have begun to target for revitalization strategically selected neighborhoods. In some cases, improved targeting has more effectively leveraged additional resources in communities; resulting in safer neighborhoods, better housing and increased property values. These beneficial neighborhood effects could more than offset the initial cost of the pilot program and would help ensure the efficiency of the \$4.3 billion annual level of formula funding.

Question. What is the projected amount needed per award?

Answer. HUD's Justification initially suggests 5–10 communities could be assisted with the \$10 million appropriation, but the amounts needed will ultimately be determined at a later date based on applications. An interagency group will advise on

the standards for awarding the funds competitively and help develop a common framework of performance measures and accountability for the Federal investment.

PLANNED IMPROVEMENTS/OFFSETS OF DEVELOPMENT CHALLENGE PILOT

Question. What are the planned improvements/offsets?

Answer. The information from this pilot will generate information that could provide the basis for future reforms or legislative/budget proposals. The line "program improvements/offsets" represents whether there is an increase or decrease in funding for a specific category and this proposal is an "improvement" rather than an "offset."

FAITH-BASED PILOT

Question. HUD is proposing a new 5-city pilot program aimed at increasing the participation of faith-based and community organizations in the cities' community development strategies. Cities will submit plans that demonstrate strategies for involving faith-based and community organizations and for making small sub-grants to faith-based and community groups. Funding is estimated to provide grants for 5 to 20 faith-based partners competitively.

What analysis has been done to justify that \$10 million might be needed for the program? What is the projected amount needed per award?

Answer. The requested budgeted amount for the Faith-Based pilot is \$5 million. While we did not have a numeric analysis as to the scope of the request, we did base the funding level on our experience which was garnered in large part through over 92 education and training events we did in fiscal year 2003. This number includes six field office-sponsored conferences and six regional conferences, three of which were sponsored by the White House office of Faith-Based and Community Initiatives. This effort guides us in gauging how many grantees and how much funding might be necessary to establish a better model on how to further expend and help faith-based and community development organizations.

Funding will vary depending on the proposals received, but would be available to cover costs required both to execute its plan and make sub-awards to leverage the contribution of grassroots organizations in affordable housing and community development activities.

The flexibility and reach of the \$4.3 billion Community Development Block Grant formula program is a top priority for communities throughout the Nation. The expenditure of \$5 million to further develop the capacity and activity of Faith Based and other new community development organizations within the program is necessary to ensure maximum impact of the overall program.

STATUS OF SAMARITAN HOUSING INITIATIVE

Question. HUD is requesting \$50 million for Samaritan Housing to advance the goal of ending chronic homelessness. When will the new Samaritan Housing Initiative be submitted to Congress?

Answer. Legislation for the Samaritan Initiative was developed and introduced as H.R. 4057 by Congressman Rick Renzi of Arizona, on March 30, 2004. On April 20, 2004, it was referred to the Subcommittee on Housing and Community Opportunity. Senate companion legislation has been drafted by Senator Allard of Colorado, but has not yet been introduced. HUD is ready to implement the program as soon as the Congress passes authorizing legislation and the President signs it into law.

FUNDING MECHANISM FOR SAMARITAN HOUSING INITIATIVE

Question. What funding mechanism is included in the legislation for this program (i.e., How will VA and HHS funding be coordinated? How will the funds be allocated? Have eligible activities been established?)?

Answer. Funds from HHS and HUD will be pooled. VA will provide in-kind supportive services. HUD will serve as the administering agency. The participating agencies shall establish an interagency implementation and monitoring team to review and conduct oversight of program grantees. The team shall establish uniform or coordinated requirements, standards, procedures, and timetables to the maximum extent possible. HHS and VA will provide supportive services. Eligible housing activities have been established as acquisition, rehabilitation, operating costs, leasing, housing counseling and rental assistance.

ANALYSIS OF FUNDING NEEDED FOR SAMARITAN HOUSING INITIATIVE

Question. We understand that the \$50 million request builds on the \$35 million funding level of the 2003 Chronic Homeless Initiatives. What analysis was done to determine funding levels for that initiative?

Answer. The fiscal year 2003 \$35 million Chronic Homeless Initiative was a smaller demonstration program and HUD's portion of the program was \$20 million. HUD's contribution to the fiscal year 2003 Initiative was in part, dependant on recaptured program funds and also reflected the effort to pursue program design and establish program performance. The fiscal year 2005 request for the Samaritan Housing initiative proposed \$50 million in HUD funds and \$10 million each from the Department of Veterans Affairs and the Department of Health and Human resources. The increased level of funding reflects that the program design involving interagency cooperation among several Departments has been well developed. In addition, the requested \$50 million funding level dovetails with the overall HUD and other agency resources targeted and available to ending chronic homelessness over a 10-year period. The request in part reflects the view that the number of chronic homeless has been estimated as a discrete number of 150,000 to 200,000. The analysis projects that increased housing resources, particularly development of permanent housing for the homeless, coupled with improved and increased delivery of related homeless services over a 10-year period, can meet the needs of this population. The Department believes that this is a realistic projection and outcome if the requested total resources are provided.

FAITH-BASED PRISONER RE-ENTRY INITIATIVE

Question. The budget proposes \$25 million to fund HUD's portion of a joint Federal initiative with the Departments of Labor and Justice designed to help individuals exiting prison make a successful transition to community life. What analysis has been done to justify that \$25 million might be needed for the program? What is the projected amount needed per award?

Answer. The scale of the proposal reflects the high priority of the 10-year goal of ending chronic homelessness, as well as reducing overall homelessness while at the same time recognizing that this is a new initiative that will provide many lessons learned to help direct future policy. HUD calculates that \$6,500 is required to house a homeless individual annually. The \$25 million figure was calculated by figuring that \$3,250 could serve nearly 7,700 individuals for 6 months as they are coming out of prison and getting re-established.

Question. How is HUD's portion coordinated with the Departments of Labor and Justice?

Answer. A working group will soon be convened by the White House to bring senior officials from the Department of HUD, Labor and Justice to plan the programmatic policy for the initiative.

ZERO DOWNPAYMENT PROPOSAL

Question. HUD is proposing a legislative change that would enable HUD to insure mortgages with a zero downpayment. Borrowers would also be able to finance upfront insurance premiums and certain other settlement costs (e.g., initial service charges, appraisal, inspection, and other fees in connection with the mortgage—just as they do now under FHA's 203(b) program). Borrowers are subject to standard FHA requirements for mortgage amounts and income-to-debt ratio. The program is targeted to first-time homebuyers, however, borrowers are eligible if they have not owned a house in the past 3 years. FHA would charge borrowers upfront and annual premiums that are higher than those for FHA's regular 203(b) mortgage product. Up-front premiums for this new product would be 2.25 percent and annual premiums would be 0.75 percent for the first 5 years and then 0.5 percent thereafter. In comparison, under the Mutual Mortgage Insurance program, borrowers pay up-front premiums of 1.5 percent and annual premiums of 0.5 percent. Borrowers would also be required to participate in homebuyer counseling. Per HUD's suggested appropriations language, the Secretary would also be authorized to establish additional requirements. HUD's budget justifications also indicate that this new product could also be insured by the GI/SRI fund.

HUD expects an increased risk of default associated with these mortgages; specifically, HUD estimates a default rate of 18.73 percent (i.e., lifetime defaults as percentage of disbursements) as compared to the estimated default rate of 9.06 for FHA's regular 203(b) mortgage product. HUD also estimates a recovery rate of 71.90 percent (i.e., recoveries as a percentage of lifetime defaults). HUD estimates that these products would have a subsidy rate of -0.95 percent, compared with a sub-

sidy rate of -1.93 percent for the Mutual Mortgage Insurance program. HUD expects this new program/product to generate 109,000 new cases in 2005 and \$184 million in additional negative subsidy. HUD also estimates that 36,000 cases that would otherwise qualify for the regular 203(b) program are expected to choose the zero downpayment product; as a result, HUD estimates that (a) the risk of the base program will be decreased and (b) this will add \$16 million to the baseline negative subsidy.

Will the proposed zero downpayment product be underwritten using the new TOTAL Scorecard system? If so, since the zero downpayment mortgages are viewed to be "more risky" than FHA's standard 203(b) product, how will TOTAL Scorecard assess this risk?

Answer. Yes, all mortgages under the zero downpayment program must be risk assessed using the FHA TOTAL mortgage scorecard. The FHA TOTAL mortgage scorecard never rejects any application, but rather refers the loan application to an individual underwriter for his or her personal review of the risk of the mortgage.

The mortgage scorecard includes the initial loan to value in the algorithm. Thus, zero downpayment loans—since they are higher risk—will be more likely to be referred by the scorecard to an underwriter who will analyze the overall risk of the mortgage and make the credit decision.

TOTAL SCORECARD

Question. What factors would TOTAL Scorecard weigh most heavily when considering whether a borrower with no downpayment would be approved?

Answer. The scorecard algorithm assesses these credit and application variables:

- Borrower's credit
- Monthly Housing Expense Ratio
- Number of Monthly Payments in Reserve following loan closing
- Loan-to-Value (LTV)
- Loan Term (number of years).

UNDERWRITING CRITERIA

Question. Will HUD require borrowers to meet certain underwriting criteria that are not now considered under TOTAL or otherwise considered under the standard 203(b) product?

Answer. HUD will require housing counseling as a condition of loan approval. FHA program data show that minority first-time homebuyers who received counseling in fiscal years 1998–2000 in order to reduce their upfront premium have lower cumulative claim rates than comparable homebuyers who did not. Analyses performed by Freddie Mac show similar results.

ADDITIONAL REQUIREMENTS

Question. According to HUD budget justification documents, the HUD Secretary reserves the right to establish additional requirements for the zero downpayment product. At this point in time what, if any, type of requirements does the Secretary envision establishing?

Answer. The administration proposes an upfront premium of 2.25 percent and an annual premium of 75 basis points for the first 5 years of the loan, dropping to 50 basis points until LTV reaches 78 percent. Also intended is a requirement to underwrite applicants using the TOTAL automated scorecard and that borrowers receive pre-purchase counseling.

REDUCTION IN THE HOPE VI PROGRAM

Question. The administration's fiscal year 2004 budget did not request funding for HOPE VI program. This program received \$570 million in fiscal year 2003. Secretary Martinez indicated that there were sufficient unspent funds in the pipeline to keep this program operating. However, the House recommended \$50 million, the Senate \$195 million, and \$150 million was actually provided. Has HUD completed and submitted its report to the Appropriations Committee identifying the status of each HOPE VI project funded before 1999 and actions taken towards timely completion of these projects, detailing the department's plans for implementing the recommendations made by GAO, etc.? Please provide a copy if available.

Answer. Yes. This report was submitted to the U.S. House of Representatives Committee on Appropriations and the U.S. Senate Committee on Appropriations on March 8, 2004 that provides the status of each HOPE VI project funded prior to 1999 and any actions taken to ensure timely completion of such projects. A copy of the report is provided.



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-1000

ASSISTANT SECRETARY FOR CONGRESSIONAL
AND INTERGOVERNMENTAL RELATIONS

MAR 8 2004

The Honorable David R. Obey
Ranking Minority Member
Committee on Appropriations
U.S. House of Representatives
Washington, DC 20510-6015

Dear Representative Obey:

The Conference Report to accompany H.R. 2673 making appropriations for Agriculture, Rural Development, Food and Drug Administration, and related agencies for the fiscal year ending September 30, 2004, requested that HUD submit a status report on the HOPE VI program to Congress.

The conferees requested that the report describe the changes implemented and planned to improve HUD's oversight of HOPE VI grantees; the status of each HOPE VI project funded prior to 1999 and any actions taken to ensure timely completion of such projects, and the Department's plans for implementing the recommendations made by GAO. The Department has addressed each of these questions in the attached report.

As you know, the President's FY 2005 budget recommended that HOPE VI not be funded. This will allow the Department to focus on the completion of existing grants. It will also allow the Department to develop strategies for addressing distress in the public housing inventory in more flexible ways, as described in this report.

Thank you for continuing to work with the Department on the public housing program.

Sincerely,

Steven B. Nesmith
Assistant Secretary for Congressional and
Intergovernmental Relations



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-1000

ASSISTANT SECRETARY FOR CONGRESSIONAL
AND INTERGOVERNMENTAL RELATIONS

MAR 8 2004

The Honorable Christopher S. Bond
Chairman, Subcommittee on VA,
HUD, and Independent Agencies
Committee on Appropriations
United States Senate
Washington, DC 20510-6032

Dear Mr. Chairman:

The Conference Report to accompany H.R. 2673 making appropriations for Agriculture, Rural Development, Food and Drug Administration, and related agencies for the fiscal year ending September 30, 2004, requested that HUD submit a status report on the HOPE VI program to Congress.

The conferees requested that the report describe the changes implemented and planned to improve HUD's oversight of HOPE VI grantees; the status of each HOPE VI project funded prior to 1999 and any actions taken to ensure timely completion of such projects, and the Department's plans for implementing the recommendations made by GAO. The Department has addressed each of these questions in the attached report.

As you know, the President's FY 2005 budget recommended that HOPE VI not be funded. This will allow the Department to focus on the completion of existing grants. It will also allow the Department to develop strategies for addressing distress in the public housing inventory in more flexible ways, as described in this report.

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Sincerely,

Steven B. Nesmith
Assistant Secretary for Congressional and
Intergovernmental Relations



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-1000

ASSISTANT SECRETARY FOR CONGRESSIONAL
AND INTERGOVERNMENTAL RELATIONS

MAR 8 2004

The Honorable Robert C. Byrd
Ranking Member
Committee on Appropriations
United States Senate
Washington, DC 20510-6025

Dear Senator Byrd:

The Conference Report to accompany H.R. 2673 making appropriations for Agriculture, Rural Development, Food and Drug Administration, and related agencies for the fiscal year ending September 30, 2004, requested that HUD submit a status report on the HOPE VI program to Congress.

The conferees requested that the report describe the changes implemented and planned to improve HUD's oversight of HOPE VI grantees; the status of each HOPE VI project funded prior to 1999 and any actions taken to ensure timely completion of such projects, and the Department's plans for implementing the recommendations made by GAO. The Department has addressed each of these questions in the attached report.

As you know, the President's FY 2005 budget recommended that HOPE VI not be funded. This will allow the Department to focus on the completion of existing grants. It will also allow the Department to develop strategies for addressing distress in the public housing inventory in more flexible ways, as described in this report.

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Steven B. Nesmith
Assistant Secretary for Congressional and
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U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-1000

ASSISTANT SECRETARY FOR CONGRESSIONAL
AND INTERGOVERNMENTAL RELATIONS

MAR 8 2004

The Honorable Barbara A. Mikulski
Ranking Minority Member
Subcommittee on VA,
HUD, and Independent Agencies
Committee on Appropriations
United States Senate
Washington, DC 20510-6031

Dear Senator Mikulski:

The Conference Report to accompany H.R. 2673 making appropriations for Agriculture, Rural Development, Food and Drug Administration, and related agencies for the fiscal year ending September 30, 2004, requested that HUD submit a status report on the HOPE VI program to Congress.

The conferees requested that the report describe the changes implemented and planned to improve HUD's oversight of HOPE VI grantees; the status of each HOPE VI project funded prior to 1999 and any actions taken to ensure timely completion of such projects, and the Department's plans for implementing the recommendations made by GAO. The Department has addressed each of these questions in the attached report.

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Sincerely,

Steven B. Nesmith
Assistant Secretary for Congressional and
Intergovernmental Relations



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-1000

ASSISTANT SECRETARY FOR CONGRESSIONAL
AND INTERGOVERNMENTAL RELATIONS

MAR 8 2004

The Honorable James T. Walsh
Chairman, Subcommittee on VA,
HUD, and Independent Agencies
Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515-6022

Dear Mr. Chairman:

The Conference Report to accompany H.R. 2673 making appropriations for Agriculture, Rural Development, Food and Drug Administration, and related agencies for the fiscal year ending September 30, 2004, requested that HUD submit a status report on the HOPE VI program to Congress.

The conferees requested that the report describe the changes implemented and planned to improve HUD's oversight of HOPE VI grantees; the status of each HOPE VI project funded prior to 1999 and any actions taken to ensure timely completion of such projects, and the Department's plans for implementing the recommendations made by GAO. The Department has addressed each of these questions in the attached report.

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Sincerely,

Steven B. Nesmith
Assistant Secretary for Congressional and
Intergovernmental Relations



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-1000

ASSISTANT SECRETARY FOR CONGRESSIONAL
AND INTERGOVERNMENTAL RELATIONS

MAR 8 2004

The Honorable Ted Stevens
Chairman, Committee on
Appropriations
United States Senate
Washington, DC 20510-6025

Dear Mr. Chairman:

The Conference Report to accompany H.R. 2673 making appropriations for Agriculture, Rural Development, Food and Drug Administration, and related agencies for the fiscal year ending September 30, 2004, requested that HUD submit a status report on the HOPE VI program to Congress.

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Sincerely,

Steven B. Nesmith
Assistant Secretary for Congressional and
Intergovernmental Relations



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-1000

ASSISTANT SECRETARY FOR CONGRESSIONAL
AND INTERGOVERNMENTAL RELATIONS

MAR 8 2004

The Honorable Alan B. Mollohan
Ranking Minority Member
Subcommittee on VA,
HUD, and Independent Agencies
Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515-6022

Dear Representative Mollohan:

The Conference Report to accompany H.R. 2673 making appropriations for Agriculture, Rural Development, Food and Drug Administration, and related agencies for the fiscal year ending September 30, 2004, requested that HUD submit a status report on the HOPE VI program to Congress.

The conferees requested that the report describe the changes implemented and planned to improve HUD's oversight of HOPE VI grantees; the status of each HOPE VI project funded prior to 1999 and any actions taken to ensure timely completion of such projects, and the Department's plans for implementing the recommendations made by GAO. The Department has addressed each of these questions in the attached report.

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Steven B. Nesmith
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U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-1000

ASSISTANT SECRETARY FOR CONGRESSIONAL
AND INTERGOVERNMENTAL RELATIONS

MAR 8 2004

The Honorable C. W. Bill Young
Chairman, Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515-6015

Dear Mr. Chairman:

The Conference Report to accompany H.R. 2673 making appropriations for Agriculture, Rural Development, Food and Drug Administration, and related agencies for the fiscal year ending September 30, 2004, requested that HUD submit a status report on the HOPE VI program to Congress.

The conferees requested that the report describe the changes implemented and planned to improve HUD's oversight of HOPE VI grantees; the status of each HOPE VI project funded prior to 1999 and any actions taken to ensure timely completion of such projects, and the Department's plans for implementing the recommendations made by GAO. The Department has addressed each of these questions in the attached report.

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Thank you for continuing to work with the Department on the public housing program.

Sincerely,

Steven B. Nesmith
Assistant Secretary for Congressional and
Intergovernmental Relations

HOPE VI Status Report
Submitted to the House and Senate Appropriations Committees
February 2, 2004

A. Changes planned or implemented to improve HUD oversight of HOPE VI grantees

HUD has made significant strides in its oversight of HOPE VI grantees and management of the HOPE VI program. HOPE VI oversight and management has evolved from an overly flexible approach with fluid production deadlines and expectations to a more balanced approach that makes HOPE VI grantees and HUD staff accountable for the progress of HOPE VI projects.

In 2001, the Department established a HOPE VI Policy Committee and HOPE VI Project Review Panel¹ composed of senior HOPE VI staff to standardize policy interpretations and increase the consistency of HUD technical assistance across grantees. The role of the Policy Committee is to answer policy questions that emerge and to create new policies in response to these issues. The committee has increased the consistency of HUD policy and oversight, and standardized HUD guidance.

In furthering its cost control and streamlining efforts, the Department established a Project Review Panel with the purpose of reviewing Term Sheets submitted by PHAs for each mixed-finance transaction. To facilitate the review and approval process, HUD has developed a Term Sheet for PHAs to complete and submit to HUD for each mixed-finance transaction. The Term Sheet includes a description of the program and specific business terms, and is the basis of the Mixed-Finance Proposal. The Project Review Panel, similar to a bank loan committee, is a sitting body that is scheduled to meet twice a week to perform timely review of mixed-finance projects through the assessment of Term Sheets.

The goals of this review process are to: streamline proposal approval by enabling PHAs to get quick and final approval of negotiated terms as early in the development process as possible; give all parties – housing authorities, developers, and HUD - an increased sense of certainty as they prepare for closing; provide consistency in the mixed-finance development program; and provide an outline for preparing portions of a Mixed-Finance Proposal.

In addition to these efforts, HUD has placed a greater emphasis on meeting deadlines and completion of HOPE VI developments. HUD provided a grace period during the first half of 2002 that allowed PHAs to revise their existing development schedules based on their own determinations of when they would complete a milestone activity. However, in June of 2002 these self-imposed checkpoints were "locked". To better track progress toward achieving the locked checkpoints, the Department upgraded the Grants Management System so that grantees have the ability to update their locked checkpoint completion dates on a continual basis via the system website.

Review of locked checkpoint completions is the Department's primary method of measuring the progress of the HOPE VI program and determining whether there might be a future grant default. As such, it is imperative that grantees move forward to complete the development activities that are related to these locked checkpoints and to inform the Department immediately upon completion of each activity. Failure to complete grant activities by the planned completion dates, or failure to report completion of a critical milestone, may cause the Department to place a grant in default.

¹ For information on the HOPE VI Project Review Panel visit:
http://www.hud.gov/offices/pih/programs/ph/hope6/mfph/project_review.cfm

In November 2003, five housing authorities (Biloxi, MS; Detroit, MI; Tulsa, OK; Washington, DC; and Wheeling, WV) were put into default because they had missed more than 10 of these critical milestones. Even though many grants are behind schedule, these grants have missed 10 or more key activities e.g., hiring a developer, relocating residents, beginning and ending construction. The default letters stated that the Department would deduct funds from their HOPE VI grants if they did not meet their implementation checkpoints within 90 days.

If a PHA does not meet these self-imposed performance measures within 90 days, \$1,000 daily will be deducted from the original grant for each critical milestone that is missed. For example, if a housing authority missed 10 critical milestones, they would be fined a total of \$10,000 a day.

Recapturing the entire grant from low-performing or slow-moving projects is also a possibility. In 2000, the Department attempted to recapture the Hollander Ridge grant funds from the City of Baltimore after the housing authority failed to produce an acceptable plan. Subsequent to HUD's notification that the funds would be recaptured, Congress passed legislation allowing the housing authority to retain the grant funds. HUD has also placed housing authorities in default for not proceeding with their plan. In November 2003, HUD notified the Detroit Housing Authority that it was in default of its Grant Agreement. The housing authority then provided a sound plan for how to proceed. The Department accepted its plan and the housing authority is now making progress.

Oversight of community and supportive services (CSS) has also improved significantly over the last three years. In 2000, HUD added a CSS section to the quarterly reporting system. Grantees report their current caseload, location of residents in the caseload and the number of enrollments and completions for social services (e.g., employment preparation, job skills training enrollments / completions, high school or equivalent education enrollments and completions, childcare, employment, and homeownership) every quarter through this system. Grantees also set yearly and quarterly goals for service enrollments and completions. HUD staff monitor progress toward these goals and score grantees across a portfolio triage system to determine the level of technical assistance that each site requires. Poor performance in meeting service goals, difficulty in establishing and managing case management services, conflicts with resident groups, relocation problems, and loss of leverage / in-kind support or service partners can trigger site visits from HUD staff. Additional monitoring and technical assistance is provided by technical assistance providers contracted by HUD to work directly with HOPE VI grantees on their CSS plans and implementation.

The Department has also placed a strong emphasis on past performance, up-front capacity and readiness in the HOPE VI Notice of Funding Availability to ensure that grantees are prepared to begin the HOPE VI process. In the FY 2002 Notice of Funding Availability HUD included past performance as both a threshold factor² and rating factor³. Applicants were disqualified if they had: a) an open IG or GAO audit finding related to the HOPE VI or Capital Fund Programs as of the date the application was due to HUD and / or b) failed to meet its performance requirements as required in the applicable HOPE VI Revitalization Grant Agreement by the date the application was due to HUD. Other threshold factors were site control, committed funds and zoning. As a rating factor, past performance included whether an applicant had met deadlines for submission of supplemental submissions; submission of the community and supportive services work plan; procurement of the program manager; and

² 2002. *HOPE VI Revitalization Grant Application*. U.S. Department of Housing and Urban Development. Pg. 20.

³ 2002. *HOPE VI Revitalization Grant Application*. U.S. Department of Housing and Urban Development. Pg. 25.

execution of the master development agreement. The factor also included a score for percent of HOPE VI funds obligated, with low obligation rates being penalized.

In FY 2003 HUD continued using past performance as a criterion for funding⁴. Similar to FY 2002, this criterion included threshold factors and a rating factor. Applicants were disqualified if they had an open IG or GAO audit finding related to the HOPE VI or Capital Fund programs as of the date the application was due to HUD. Other threshold factors included site control, committed funds and zoning. As a rating factor, past performance included a score based on the percent of unit construction completed.

In addition to these changes, HUD field offices are now playing a larger role in grant management and oversight. Field offices in Florida, Kentucky, New York, and Ohio are now directly managing HOPE VI grants in their region and helping to alleviate large grant portfolios among headquarters based grant managers. Moreover, the HOPE VI program is coordinating project oversight and annual audits with field offices across the HOPE VI portfolio to expand the capacity of HUD to more directly monitor the progress of HOPE VI projects.

B. Status of each HOPE VI project funded prior to 1999

HUD awarded 110 HOPE VI grants between 1993 and 1998. Only 26 (24%) of these developments are 100% completed and only 20 (18%) are nearing completion (i.e., are 80% or more completed).⁵ The following list provides an update for each grant funded between 1993 and 1998. The summary includes the demolition, relocation, and construction status⁶ for each site. In addition, the summary provides a short explanation for why a project is behind schedule and how HUD is working with the grantee to rectify the delay.

The schedules used to determine if a grantee is on time in the following descriptions were approved in the summer of 2002, and in some cases approved revisions since then. This information does not reflect, in most cases, schedules that were developed at the start of the grant.

1993

Atlanta, GA: Techwood Homes / Clark Howell Homes

Demolition, relocation, construction/rehabilitation and occupancy are all 100% completed.

Boston, MA: Mission Main

Demolition, relocation, construction/rehabilitation and occupancy are all 100% completed. The development is on schedule and meeting all critical milestones. The housing authority has not closed out the grant because there is money remaining in their CSS budget. The authority will use the money to provide services to eligible residents; after the money is spent the grant will be closed. HUD is providing technical assistance to the housing authority in using this money to effectively deliver services to residents.

Charlotte, NC: Earle Village

Demolition, relocation, construction/rehabilitation and occupancy are all 100% completed.

⁴ 2003 *Notice of Funding Availability for Revitalization of Severely Distressed Public Housing*. Federal Register, Vol. 68, No. 203. 60189-60190.

⁵ HOPE VI Quarterly Progress Report, September 30, 2003.

⁶ All demolition, relocation, construction/rehabilitation and occupancy data presented for sites in this summary is from the HOPE VI Quarterly Progress Report, September 30, 2003.

Cuyahoga County, OH (Cleveland): King Kennedy / Outhwaite

Relocation, construction/rehabilitation and occupancy are all 100% completed. A lawsuit with the contractor is resolved. The Grantee has submitted a plan detailing how the remaining \$1.5 million will be spent and HUD is closely monitoring the housing authority.

Houston, TX: Allen Parkway Village

Demolition, relocation, construction/rehabilitation and occupancy are all 100% completed. The development is on schedule and meeting all critical milestones. The grant will close out in 2004 following the completion of a community facility and community and supportive services.

Kansas City, MO: Guinotte Manor

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are both 97% completed. Significant emphasis is being placed on the submission of the legal and financial documents for the remaining phase of construction. HUD is monitoring the progress of this grant and providing guidance to the grantee as it completes the final phase of construction.

Los Angeles, CA: Pico Gardens

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are both 91% completed. The development is on schedule and meeting all critical milestones.

Milwaukee, WI: Hillside Terrace

Demolition, relocation, construction/rehabilitation and occupancy are all 100% completed.

New Haven, CT: Elm Haven

Demolition and relocation are 100% completed. Construction/rehabilitation is 92% completed. Occupancy is 89% completed. A housing authority consultant found on-site environmental conditions that needed remediation and abatement. New Haven is currently working to resolve the problem and HUD is providing guidance during this process.

Philadelphia, PA: Richard Allen Homes

Demolition and relocation are 100% completed. Construction/rehabilitation is 84% completed. Occupancy is 78% completed. The development is on schedule and meeting all critical milestones.

Pittsburgh, PA: Allequippa Terrace

Demolition and relocation are 100% completed. Construction/rehabilitation is 87% completed. Occupancy is 81% completed. The development is on schedule and meeting all critical milestones.

San Francisco, CA: Bernal / Plaza

Demolition, relocation, construction and occupancy are all 100% completed.

Washington, DC: Ellen Wilson Homes

Demolition, relocation, construction/rehabilitation and occupancy are all 100% completed. Following discussions with HUD staff, the housing authority submitted a request that revises the Ellen Wilson HOPE VI budget, and, if approved, would enable the grant to be closed out. The major changes are (1) building the community center without the use of HOPE VI funds, thereby removing this component from the budget, and (2) eliminating funding for a CSS long-term sustainability initiative. In both instances, the housing authority has submitted material

justifying these changes and they will not adversely impact the overall revitalization program. HUD is providing guidance to the housing authority as they prepare to close out the grant.

1994

Baltimore, MD: Homeownership Demonstration

Construction/rehabilitation and occupancy are 3% completed. The homeownership demolition grant was created as a result of the Thomson v. HUD partial consent decree, which stated that \$18.6 million of Baltimore's Lafayette Courts HOPE VI grant must be set aside for homeownership opportunities in economically and racially non-impacted areas. While the housing authority has hired a consultant to develop these units, the housing authority has had difficulty in achieving the goals of the partial consent decree. HUD is providing technical assistance funds to support mediation among the parties and holds all parties accountable for their responsibilities.

Baltimore, MD: Lafayette Courts

Demolition, relocation, construction and occupancy are all 100% completed.

Camden, NJ: McGuire Gardens

Demolition, relocation, construction and occupancy are all 100% completed.

Chicago, IL: Cabrini Green

Demolition is 78% completed. Relocation is 82% completed. Construction/rehabilitation and occupancy are 34% completed. The project has been delayed by a consent decree and a lawsuit involving the developer. HUD is providing the housing authority with technical assistance and guidance as it moves forward with the project and navigates legal issues.

Columbus, OH: Windsor Terrace

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 65% completed. The Columbus HOPE VI program experienced a severe delay in its construction schedule when a lawsuit was filed to stop the housing authority from developing in a semi-rural area. The lawsuit took almost two years to resolve, but this phase of the site has since been developed and is fully occupied. The final two phases of this grant are under construction. The housing authority is currently on schedule to meet production milestones for future phases.

Dallas, TX: Lakewest

The site involved no demolition or relocation. Construction/rehabilitation and occupancy are 26% completed. As a result of litigation, the housing authority has only completed and occupied 76 units under this grant. In March 2003, HUD approved the housing authority's revised Revitalization Plan (RP) for the grant, which proposed a new acquisition phase. The 220 units in this new phase have been acquired and are undergoing rehabilitation. HUD is providing guidance and technical assistance to the housing authority as it rehabilitates the final 220 units of the development.

Denver, CO: Quigg Newton Homes

Demolition, relocation, construction and occupancy are all 100% completed.

Detroit, MI: Jeffries Gardens

Demolition and relocation are 100% completed. Construction is 33% completed. Occupancy is 21% completed. The grant was placed in default in November 2003. The housing authority has resolved the default status by submitting Mixed-Finance Proposals for homeownership and senior units, and implementing the plans for these phases. The housing authority has made progress in constructing public housing, tax-credit and market rate rental units and has started occupying these units. HUD is providing the housing authority with technical assistance to complete the remaining phases of the development.

New Orleans, LA: Desire

Demolition is 100% completed. Relocation is 90% completed. Construction/rehabilitation and occupancy are 0% completed. The housing authority was placed in receivership by HUD two years ago, in part, because of their failure to manage their two HOPE VI grants. Under HUD receivership, the housing authority has closed two phases of development at Desire and currently has over 400 housing units in production, with Phase I nearing completion and Phase II under construction. The HUD receivers are working with the housing authority and their developers on financing the final phases of residential construction.

Newark, NJ: Archbishop / Walsh Homes

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 27% completed. Initial construction delays were due to a change in the RP from rehabilitation of existing towers to demolition and replacement with new construction on-site (Phases I and III) and off-site (Phase II). Construction on Phases I and II was delayed due to bankruptcy and default/termination of the turnkey developers. One hundred and eleven units at Phase I are completed and occupied. Construction on the remaining 87 units started with a new developer, but was delayed due to a water-main break and unforeseen corrective work due to poor performance of the prior developer. Construction at Phase II (off-site) is nearing completion, but is delayed due to infrastructure work by local utility companies. Phase III (on-site) was delayed by third-party lawsuits, and is now scheduled to be complete in the third quarter of 2005. To expedite completion, HUD has approved work-out plans for Phases I and II, and reductions to the scope of work in Phase II.

Oakland, CA: Lockwood Gardens / Lower Fruitvale

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 67% completed. The development is on schedule and meeting all critical milestones.

San Antonio: Spring View

Demolition and relocation are 100% completed. Construction/rehabilitation is 54% completed. Occupancy is 23% completed. In 2003, in part because of HOPE VI difficulties, a full turnover took place among the housing authority Board of Commissioners and the HOPE VI administrative staff. Now under new leadership, the housing authority has recently submitted a detailed analysis and report to HUD, including a completion strategy with specific proposals. A HUD Inspector General (IG) audit of the grant is underway.

San Juan, PR: Cristantemos y Manuel A. Perez

Demolition is 100% completed. Relocation is 97% completed. Construction/rehabilitation and occupancy are 55% completed. The housing authority's HOPE VI program was put into receivership. After two years of resolving a variety of IG audit findings, the housing authority

focused its attention on the HOPE VI project. The housing authority issued a stop-work order to its builder due to faulty construction and repeated delays. Since that time, the housing authority has been in negotiation with the issuer of the builder's performance bond in order to resume construction. At this point, negotiations have stalled and it is likely that the parties will bring suit against each other. No revised construction schedule has been submitted to HUD by the housing authority. HUD will provide technical assistance and guidance where appropriate to assist the housing authority to resolve these issues.

Springfield, IL: John Hay Homes

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 88% completed. As of January 2004, Springfield had one remaining phase of development that has suffered many delays because the housing authority has been unable to obtain Low Income Housing Tax Credits (LIHTC). After four unsuccessful attempts, it became apparent that Springfield needed to restructure this development phase. HUD has approved the housing authority's request for a revision to their RP. The RP revision will allow them to decrease the total number of units developed from 41 mixed-income/public housing units to 27 public housing units. HUD's approval has enabled the housing authority to move forward with the last phase of development in a timely manner utilizing funding that is already in place.

1995

Baltimore, MD: Lexington Terrace

Demolition, relocation, construction/rehabilitation and occupancy are all 100% completed.

Boston, MA: Orchard Park

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 86% completed. Construction was delayed because lots originally selected for off-site units required environmental remediation, and the housing authority lacked the funds for remediation activities. Subsequent efforts to secure new lots and a new developer are underway and making progress. HUD is providing technical assistance as these efforts unfold.

Cuyahoga County, OH (Cleveland): Carver Park

Demolition is 63% completed. Relocation is 100% completed. Construction/rehabilitation and occupancy are 1% completed. HUD provided guidance and technical assistance as the housing authority restructured its deals, negotiated with partners and prepared materials for submission. This resulted in submission of legal and financial documents for two phases, the closing of one phase (homeownership), and construction on a third phase. HUD will continue to provide technical assistance to the housing authority and assist them in expediting unit construction.

Detroit, MI: Parkside Homes

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 41% completed. The housing authority is revising their RP for the final two phases of the development. Progress has been delayed while the housing authority settles financing details with tax equity investors. The housing authority has made progress in constructing and occupying public housing / LIHTC units in two previous phases. The housing authority is also resolving a major IG audit. HUD is providing technical assistance to the housing authority as they revise their RP.

El Paso, TX: Kennedy Brothers

Demolition, relocation, construction/rehabilitation and occupancy are all 100% completed.

Indianapolis, IN: Concord/Eagle Creek

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 91% completed. Since the September 30, 2003 HOPE VI Quarterly Progress Report, the housing authority has constructed the remaining units and submitted grant close-out documents.

Memphis: College Park/LeMoyné Gardens

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 83% completed. The housing authority was behind schedule because they did not meet their homeownership close out certification date. The housing authority misunderstood the definition of this date, and thus entered an incorrect date. In addition, the housing authority discharged their developer during this period and is now acting as their own developer, which has caused further project delays. The housing authority also divided the homeownership phase into on-site and off-site homeownership, and established new milestones for the off-site homeownership component. On-site construction is progressing and the project appears back on schedule. HUD is providing the housing authority with guidance and technical assistance as it addresses project delays.

New York, NY: Arverne / Edgemere

There was no demolition at this site. Relocation is 100% completed. Construction/rehabilitation and occupancy are 68% completed. The grantee had numerous setbacks in the modernization of this development. The architect that the housing authority procured to design several phases of the project was terminated in 2002. Tenants occupying the commercial site initiated lawsuits and continue negotiations toward prospective relocation sites. Discussions with the grantee to clarify a \$1.5 million Mixed-Finance Proposal are nearing resolution. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Pittsburgh, PA: Manchester

Demolition and relocation are 100% completed. Construction/rehabilitation is 88% completed. Occupancy is 87% completed. Progress was delayed by shifting priorities among residents in the surrounding community and financing commitments. The housing authority is finalizing plans that will enable it to proceed and will submit them for HUD approval in the near future. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

San Antonio, TX: Mirasol

Demolition and relocation are 100% completed. Construction/rehabilitation is 100% completed. Occupancy is 99% completed. Delays in the completion of this grant were affected by staff turnover at the housing authority. A recent housing authority analysis proposes changes in the homeownership program to remedy recent delays in this phase. The grantee plans to close out the grant in 2004. The HUD IG is also conducting an audit. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

San Francisco, CA: Hayes Valley

Demolition, relocation, construction/rehabilitation and occupancy are all 100% completed.

Seattle, WA: Holly Park

Demolition and relocation are 100% completed. Construction/rehabilitation is 81% completed. Occupancy is 75% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

St. Louis, MO: Darst-Webbe

Demolition is 92% completed. Relocation is 100% completed. Construction/rehabilitation and occupancy are 24% completed. The housing authority is behind on the last rental phase and is planning to submit a proposal to the HUD field office for approval of this phase. The housing authority anticipates starting construction in early 2004. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

1996

Atlanta, GA: Herman E. Perry Homes

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 0% completed. However, since the September 30, 2003 HUD Quarterly Progress Report, the housing authority has completed 124 units (16%), with another 382 units under construction (48%). The housing authority has completed or is in the process of constructing over 64% of all planned units. The development is now on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Baltimore, MD: Hollander Ridge

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 0% completed. The United States Court of Appeals for the Fourth Circuit halted the implementation of the Hollander Ridge HOPE VI grant. However, the FY 2002 Appropriations Act authorized the authority to use the \$19.3 million remaining in this grant for the rehabilitation of the Claremont Homes project and for the provision of affordable housing in areas within Baltimore City. HUD requested that the housing authority submit a RP for the Claremont site, and in a letter dated January 3, 2003, the housing authority requested a six-month extension on submission of an RP. This request was the subject of numerous legal reviews. In a letter dated October 24, 2003, HUD granted the housing authority an extension until April 24, 2004 to submit a RP for the HOPE VI funds. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Charlotte, NC: Dalton Village

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 45% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Chester, PA: Lamokin Village

Demolition is 88% completed. Relocation is 83% completed. Construction/rehabilitation and occupancy are 83% completed. Additional funds were required to complete the homeownership component. The housing authority is currently restructuring its financing plan to coordinate the

construction of homeownership units with another HOPE VI grant that they were awarded in 1998. HUD is assisting the housing authority in restructuring the RP to complete the final phase.

Chicago, IL: ABLA (Brooks Extension)

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 44% completed. Delays were largely due to ineffective administration of the grant by prior managers of the housing authority - from ineffective program management to inadequate planning during the early stages of the grant. However the project is now moving forward and Phase I of construction is scheduled to close this year. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Chicago, IL: Henry Horner

Demolition is 54% completed. Relocation, construction/rehabilitation and occupancy are 0% completed. The project was initially delayed because of a lawsuit filed on behalf of the tenants; the suit has since been settled. Since the September 2003 HOPE VI progress report, construction on Phase 1A (87 public housing units) was completed. Phase 1B is proposed to close this year. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Chicago, IL: Robert Taylor Homes

Demolition and relocation are 100% completed. Construction and occupancy are 27% completed. A total of 56 off-site units (Heart United I and II) have been delivered since 2000. Delays have been caused by protracted tenant relocation; lack of land and site control; and the Gautreaux ruling. The housing authority is now making progress and plans to construct more units this year. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Cuyahoga County, OH (Cleveland): Riverview/Lakeview

Demolition and relocation are 100% completed. Construction/rehabilitation is 19% completed. Occupancy is 9% completed. This grant involves two distinct projects, one that is primarily public housing and rehabilitation and the other mixed-finance and privately developed. Construction was slowed by site erosion and financing issues. However, the grantee is now making progress and construction is complete on one phase and underway on the second phase of the rehabilitated units. The site issues have been resolved on the mixed-finance deal and the developers are discussing next steps with the grantee and HUD. HUD has also kept in close contact with the City, so that they are apprised of progress since close coordination of housing authority and City projects will be needed to meet the critical project milestones.

Detroit, MI: Herman Gardens

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 0% completed. This grant is currently in default. The housing authority is attempting to resolve its default status and has procured a land developer to assist in revisions to the RP to meet HUD production expectations. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Holvoke, MA: Jackson Parkway

Demolition is 98% completed. Relocation is 99% completed. Construction/rehabilitation is 42% completed. Occupancy is 38% completed. The development is on schedule and meeting all

critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Jacksonville, FL: Durkeeville

Demolition, relocation, and construction/rehabilitation are 100% completed. Occupancy is 70% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Kansas City, MO: Theron B. Watkins

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 65% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Louisville, KY: Cotter and Lang Homes

Demolition and relocation are 100% completed. Construction/rehabilitation is 66% completed. Occupancy is 61% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

New Orleans, LA: St. Thomas

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 0% completed. HUD placed the housing authority in receivership two years ago, in part, because of their failure to manage their two HOPE VI grants. Under receivership, both environmental and TIF financing issues have been resolved and the project is moving forward. The HUD receivers are working with the housing authority and their developers on financing the residential construction at St. Thomas.

Pittsburgh, PA: Bedford

As of the September 30, 2003 HOPE VI Quarterly Progress Report, construction/rehabilitation and occupancy were 0% completed. However, since this time the housing authority has completed and occupied 38 units, with additional units under construction. The grant was delayed by difficulties in acquiring more than 200 properties. However, the housing authority was able to resolve these problems and is making progress. Construction is scheduled to be completed by 2007. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

San Francisco, CA: North Beach

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 0% completed. While the development is on schedule and meeting all critical milestones, unit production has been slow. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Spartanburg, SC: Tobe Hartwell Extension

Demolition and relocation are 100% completed. Construction/rehabilitation is 81% completed. Occupancy is 77% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Tucson, AZ: Connie Chambers

Demolition, relocation, construction/rehabilitation and occupancy are all 100% completed.

Wilmington, NC: Robert S. Jarvey Place

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 6% completed. The housing authority began construction of the Phase I homeownership units in 2002. Construction of this phase was complete in 2003. Phase II construction of 100 LIHTC rental units began in 2002. Construction of these units will be completed by early 2004. Construction on both phases has been delayed due to unforeseen circumstances, including: inclement weather, State and City approval processes for financing and construction, and delays in securing a contractor to develop the units. Once the authority and its developer/partner were able to work through these issues, unit production increased. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

1997

Allegheny County, PA: McKees Rocks Terrace

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 61% completed. As a result of complications with the developer, resulting in the development agreement being re-negotiated, the housing authority's homeownership phase was delayed. The homeownership phase is the last phase to be completed and HUD continues to provide technical assistance and support. HUD expects this final phase to be completed by late 2004.

Baltimore, MD: Murphy Homes / Julian Gardens

Demolition, relocation, construction/rehabilitation and occupancy are all 100% completed.

Buffalo, NY: Lakeview Homes / Lower West Side

Demolition is 69% completed. Relocation is 89% completed. Construction and rehabilitation are 57% completed. Occupancy is 55% completed. The project was delayed by a change in the RP from rehabilitation of the existing development to a four-phase demolition/replacement plan involving three phases of new construction that are dependent on LIHTC project cycles. The project was further delayed by mandatory terms in the Comer v. Kemp/Cuomo court-supervised consent decree. Phase I (138 rental units) is now complete and occupied. Final completion of Phase II (150 rental units and a community center rehabilitation) is anticipated in 2004. To expedite the HOPE VI project, Phase III has been reduced from 122 units to 67 units so that it can be completed in one LIHTC funding cycle. Phase III tax credits (for 67 rental units) were awarded in 2003, and the housing authority anticipates closing the phase and starting construction in early 2004, with completion in late 2005. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Chester County, PA: Oak Street

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 56% completed. Significant emphasis is being placed on the submission of the legal and financial documents by early 2004 for the three homeownership phases that remain to be completed. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Elizabeth, NJ: Pioneer Homes / Migliore Manor

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 39% completed. As a result of HOPE VI development activities, off-site property values increased and the housing authority could not acquire off-site properties for its homeownership program at prices within the original HOPE VI budget. The PHA requested an amendment to its RP, which was approved by HUD, and all critical milestones are currently being revised. HUD expects a closeout agreement to be submitted by late 2005. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Helena, MT: Enterprise Drive

There was no demolition or relocation. Construction/rehabilitation and occupancy are all 100% completed.

Houston, TX: Allen Parkway Village 2

There was no demolition or relocation. Construction/rehabilitation is 62% completed. Occupancy is 45% completed. In late 2003, HUD approved major changes in the RP for this grant. The plan added a new mixed-finance development phase, which is under construction. The plan also restructured on-going homeownership programs, with more realistic goals. This grant is now scheduled for completion of all construction by late 2004, and grant closeout in early 2005.

Jersey City, NJ: Curries Woods

Demolition is 100% completed. Relocation is 78% completed. Construction/rehabilitation and occupancy are 80% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Kansas City, MO: Heritage Homes I

There was no demolition. Relocation is 100% completed. Construction/rehabilitation and occupancy are 76% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Knoxville, TN: College Homes

Demolition and relocation are 100% completed. Construction/rehabilitation is 53% completed. Occupancy is 48% completed. The housing authority was delayed by revisions to its RP. The plan was revised in order to change the unit mix at the HOPE VI site. The change increased the number of public housing rental units in the community and decreased the number of homeownership units. HUD is providing guidance to the housing authority as they move forward with this revised plan.

Nashville, TN: Vine Hill Homes

Demolition, relocation, construction/rehabilitation and occupancy are all 100% completed.

Orlando, FL: Colonial Park

There was no demolition for this project. Relocation is 100% completed. Construction/rehabilitation and occupancy are 44% completed. The development is on schedule

and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Paterson, NJ: Christopher Columbus

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 91% completed. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Peoria, IL: Colonel John Warner Homes

Demolition is 97% completed. Relocation is 95% completed. Construction/rehabilitation is 86% completed. Occupancy is 69% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Philadelphia, PA: Schuylkill Falls

Demolition is 56% completed. Relocation is 100% completed. Construction/rehabilitation is 6% completed. Occupancy is 0% completed. Progress on the homeownership phase has been delayed due to on-going litigation brought against the housing authority by the East Falls Community Council. In 2003, the housing authority submitted financial and legal documents for the homeownership phase, but only for 28 of the proposed 135 homes. Plans for the remainder of the units have not been provided to HUD. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Portsmouth, VA: Ida Barbour Revitalization

Demolition is 95% completed. Relocation is 43% completed. Construction/rehabilitation is 43% completed. Occupancy is 42% completed. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Richmond, VA: Blackwell

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 17% completed. Significant emphasis is being placed on submission of the legal and financial documents by late 2003 for the two remaining homeownership phases. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

San Francisco, CA: Valencia Gardens

Demolition is 0% completed. Relocation is 100% completed. Construction/rehabilitation and occupancy are 0% completed. The project was delayed by changes in the RP. The housing authority redesigned the project from rehabilitation to new construction. This required a long planning process involving the residents and surrounding community. The project is currently delayed while the housing authority awaits allocations from the California Tax Credit Allocation Committee. The housing authority expects to be awarded the credits in the spring of 2004. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

St. Petersburg, FL: Jordan Park

Demolition is 100% completed. Relocation is 94% completed. Construction/rehabilitation is 71% completed. Occupancy is 56% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Stamford, CT: Southfield Village

Demolition is 48% completed. Relocation is 93% completed. Construction/rehabilitation is 55% completed. Occupancy is 50% completed. The housing authority is awaiting tax credit approval, which has been delayed by state budget issues. The housing authority cannot complete the financial documents needed for the development of the rental units until the approval and allocation of the tax credits. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Tampa, FL: College Hill / Ponce de Leon

Demolition and relocation are 100% completed. Construction/rehabilitation is 67% completed. Occupancy is 30% completed. The implementation of the College Hill/Ponce de Leon development was delayed because the housing authority applied for and was not awarded tax credits for Phase I. The housing authority closed on Phase II, which was bond financed, and then successfully reapplied for tax credits for Phase I in a subsequent year. Phase I closed in December 2002 and is under construction. The housing authority was granted an extension on its construction completion date to early 2005. The authority applied for 9% tax credits for Phase III, but because of the competition for this funding in Florida, it was unsuccessful. The housing authority is exploring alternative methods for completing the project, such as using 4% tax credits or subdividing Phase III into two development phases. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Washington, DC: Valley Green / Sky Tower

Demolition, relocation, construction/rehabilitation and occupancy are all 100% completed.

Winston-Salem, NC: Kimberly Park Terrace

Demolition is 100% completed. Relocation is 96% completed. Construction is 46% completed. Occupancy is 24% completed. The housing authority was initially unsuccessful at securing tax credit financing which resulted in a one year delay in the construction of multi-family units. In addition, the housing authority was not able to secure lots from the city within their proposed development schedule, which delayed the construction of single-family housing. Subsequently, the housing authority has received tax credit financing, completed construction on the multi-family units and secured lots to begin construction on single-family housing. HUD is currently reviewing the homeownership plan for the single-family housing and is advising the housing authority as they move forward to complete this phase.

1998

Albany, NY: Edwin Corning Homes

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 67% completed. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Alexandria, VA: Samuel Madden Homes

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 0% completed. The project has been delayed by a series of lawsuits filed against the housing authority and HUD. The grant was further delayed by the withdrawal of the first developer. A new developer was selected in early 2002. However, a new lawsuit against HUD was filed in

late 2002, creating further delays. This lawsuit was eventually dismissed in 2003. Tax credits were received and construction started in late 2003 on the on-site phase of the project. The off-site phases are expected to get underway in the summer of 2004. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Allegheny County, PA: FDR and Homestead Apartments

Demolition is 50% completed. Relocation is 68% completed. Construction/rehabilitation and occupancy are 33% completed. As a result of investor negotiations regarding the amount of equity and the equity pay-in to the development, the grantee has submitted a revised Rental Term Sheet and anticipates submitting legal and financial documents in early 2004. HUD continues to monitor the grantee and its development team to ensure timely completion of the project.

Atlanta, GA: Carver Homes

Demolition and relocation are 100% completed. Construction/rehabilitation is 51% completed. Occupancy is 32% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Baltimore, MD: Flag House Courts

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 0% completed. The implementation of this grant was substantially delayed by a lawsuit. The lawsuit was resolved and the housing authority is now moving forward. The housing authority has closed on Phase I, which will provide 124 rental units, and legal and financial documents have been submitted for Phase II. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Cambridge, MA: John F. Kennedy Apartments

There was no demolition for this project. Relocation is 100% completed. Construction/rehabilitation is 59% completed. Occupancy is 51% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Charlotte, NC: Fairview Homes

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 39% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Chester, PA: McCaffrey Village

Demolition is 88% completed. Relocation is 83% completed. Construction/rehabilitation and occupancy are 87% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Chicago, IL: ABLA Homes

Demolition is 52% completed. Relocation is 34% completed. Construction/rehabilitation and occupancy are 0% completed. The project was delayed by ineffective administration of the grant - from ineffective program management to inadequate planning. The housing authority is now

making progress. Development functions have been combined under one developer and Phase I of the revitalization is scheduled to close this year. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Cincinnati, OH: Lincoln Court

Demolition and relocation are 100% completed. Construction/rehabilitation is 84% completed. Occupancy is 65% completed. The original developer was unable to complete the second homeownership phase on schedule. A sub-contractor was hired by the developer to expedite the completion of this phase and the housing authority board will approve this change in early 2004. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Dallas, TX: Roseland

Demolition is 100% completed. Relocation is 92% completed. Construction/rehabilitation is 61% completed. Occupancy is 57% completed. The housing authority plans to increase the number of affordable housing units it produces by taking a significantly different development approach through the participation of a new non-profit community-based partner. These changes have resulted in project delays. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Denver, CO: Curtis Park Homes and Arapahoe Courts

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 59% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Greensboro, NC: Morningside Homes

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 16% completed. Progress has been delayed due to litigation among the development partners and failed attempts to secure tax credits. While neither issue is completely resolved, the housing authority continues to push forward and has several phases completed or under construction. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Kansas City, MO: Heritage House II

Demolition, relocation, construction/rehabilitation and occupancy are all 100% completed.

Lexington, KY: Charlotte Court

Demolition and relocation are 100% completed. Construction/rehabilitation is 29% completed. Occupancy is 23% completed. The project is behind schedule on the remaining two phases due to litigation, site problems and delay in the receipt of tax credits. Tax credits will not be formally awarded until early 2004, therefore housing authority staff are attentive to the schedule and ready to submit documents as soon as possible. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Los Angeles, CA: Aliso Village

Demolition and relocation are 100% completed. Construction/rehabilitation is 80% completed. Occupancy is 50% completed. The housing authority is closing on the third and final phase of this project. The project is behind schedule on several critical milestones because the lender

changed law firms during the financial closing. The new law firm would not accept the legal documentation prepared by the previous firm, and insisted on re-submitting the legal documents. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Miami, FL: Ward Tower

There was no demolition or relocation for this project. Construction/rehabilitation and occupancy are 0% completed. Despite delayed unit production, the development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Milwaukee, WI: Parklawn Housing Development

Demolition, relocation and construction/rehabilitation are 100% completed. Occupancy is 96% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Mobile, AL: Central Plaza Towers

There was no demolition for this project. Relocation is 100% completed. Construction/rehabilitation and occupancy are 0% completed. Despite delayed unit production, the development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

New Bedford, MA: Caroline Street Apartments

There was no demolition for this project. Relocation, construction/rehabilitation and occupancy are 100% completed.

New Brunswick, NJ: New Brunswick Homes

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 32% completed. The housing authority experienced construction delays in 2001 after it failed to obtain union labor and earth moving equipment to excavate and prepare the site. During that period of time, all excavation contractors were in New York, NY working on excavation and remediation projects at the World Trade Center site. HUD expects that the housing authority will prepare closeout certification by 2005. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

New York, NY: Prospect Plaza

Demolition is 0% complete. Relocation is 100% complete. Construction/rehabilitation and occupancy are 0% complete. Phases of the Prospect Plaza development are behind schedule due to continued negotiations with the project developer. The housing authority pre-development activities and the execution of the developer's agreement for the Phase B mixed-finance rental tax credit units along with issues regarding total development costs (TDC) have delayed progress in the program. HUD is working with the grantee to align TDC within accepted guidelines.

Oakland, CA: Chestnut Court and 1114 14th Street

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 98% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Philadelphia, PA: Martin Luther King Plaza

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 20% completed. Phases IV and V were delayed due to difficulties in completing off-site acquisition. The housing authority submitted homeownership legal and financial documents for Phase IV in late 2003. HUD review, approval, closing and construction start is anticipated by early 2004. The housing authority submitted its Rental Term Sheet for Phase V in late 2003. The housing authority and its development partner are also working on the legal and financial documents for Phase V rental development, but have not yet submitted them to HUD. Submission is anticipated in early 2004, with HUD review, approval, closing and construction start later in 2004.

Roanoke, VA: Lincoln Terrace

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 69% completed. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Seattle, WA: Roxbury House and Village

Demolition and relocation are 100% completed. Construction/rehabilitation is 100% completed. Occupancy is 82% completed. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Tulsa, OK: Osage Hills Apartments

Demolition is 82% completed. Relocation is 100% completed. Construction/rehabilitation is 3% completed. Occupancy is 1% completed. The housing authority was put into default in late 2003. However, since the September 2004 HOPE VI Quarterly Progress Report significant progress has been made and the development is nearly 75% completed. Delays have been caused by a number of factors including availability of tax credits and difficulties in obtaining off-site property at prices within the original budgets. With the assistance of HUD and the approval of the Assistant Secretary for Public and Indian Housing, the housing authority has successfully restructured the remainder of the development and is on schedule to begin construction on the final phase of HOPE VI units by early 2004. The housing authority anticipates closing out the grant on schedule. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Wilmington, DE: Eastlake Family Public Housing

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 0% completed. The housing authority and developer submitted a revised homeownership plan in late 2003 and are completing legal and financial documents, which they expect to submit to HUD in early 2004. Construction is expected to begin in early 2004. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

C. HUD plans for implementing GAO recommendations

Congress requested that the General Accounting Office (GAO) comprehensively review the HOPE VI program. Because of the scope of the project, GAO agreed to provide the information in a series of three reports. The first report, issued in November 2002, discussed the

financing of HOPE VI sites⁷. The second report, issued in May 2003, described HUD's management and oversight of the HOPE VI program⁸. The third and final report, focused on the effect that the HOPE VI program has had on residents and the neighborhoods surrounding HOPE VI sites⁹. GAO made five recommendations to HUD in these reports:

- a) HUD should provide the amounts and sources of funding used at HOPE VI sites, including equity raised from low-income housing tax credits, to Congress as required by law in annual reports;
- b) HUD should provide the total cost of developing public housing units at HOPE VI sites, including the costs of items subject to HUD's development cost limits and those that are not, to Congress as required by law in annual reports;
- c) HUD should continue to include past performance as an eligibility requirement in each year's notice of funding availability;
- d) HUD should clarify the role of field offices in HOPE VI oversight and ensure that HUD field offices conduct required annual reviews of HOPE VI grants; and
- e) HUD should develop formal, written enforcement policy to hold public housing authorities accountable for the status of their grants.

Annual Reports to Congress

As GAO indicated in its report, an annual report on the HOPE VI program is required under Section 24 of the U.S. Housing Act of 1937, as amended. This annual report requirement became law on October 21, 1998. Thus, annual reports should have been filed for fiscal years 1999 through 2003.

HUD did not submit annual reports on the HOPE VI program for FY 1999, FY 2000 and FY 2001. However, HUD submitted annual reports on the HOPE VI program to Congress for FY 2002 and FY 2003. HUD agrees with the GAO recommendation to submit annual reports, in accordance with the format required in Section 24 of the Act, and will continue submitting annual reports to Congress on the HOPE VI program.

The annual reports in FY 2002 and FY 2003 included a description of the number, type and cost of public housing units revitalized; the status of projects identified as severely distressed public housing; the amount and type of financial assistance provided under and in conjunction with the HOPE VI program; and the recommendations from HUD for statutory and regulatory improvements. The reports also provided total development costs and the elements that are included or excluded from the calculation of these cost limits.

Currently, HUD's HOPE VI reporting system does not provide for the level of detail requested by GAO regarding the amount of tax credit equity. The system collapses all non-federal sources into one category; thus HUD is unable to disaggregate the amount of equity raised through low-income housing tax credits. HUD includes these funds in the non-federal sources category, because the sale of tax credits generate private capital to support low-income

⁷ 2002 GAO-03-91 HOPE VI Leveraging has Increased, but HUD has not Met Annual Reporting Requirements. General Accounting Office: Washington, DC.

⁸ 2003 GAO-03-555 HUD's Oversight of HOPE VI Sites Needs to be More Consistent. General Accounting Office: Washington, DC.

⁹ 2003 (Draft) GAO-04-109 HOPE VI Resident Issues and Changes in Neighborhoods Surrounding Grant Sites. General Accounting Office: Washington, DC.

housing. However, HUD recognizes that tax credits represent forgone federal income and are therefore a direct cost to the federal government.

In addition to annual reports, the Conference Report on the Departments of Veterans Affairs on Housing and Urban Development and Independent Agencies Appropriations Act for FY 2002, enacted November 26, 2001, directed HUD to file by June 15, 2002 a report on the lessons learned in HOPE VI, including best practices, the extent of leveraging and neighborhood economic development, and the extent to which HOPE VI can be a model for treatment of the distressed Project-based Section 8 stock. This report was filed on June 14, 2002.

Past Performance as an Eligibility Requirement

In the FY 2002 Notice of Funding Availability HUD included past performance as both a threshold factor¹⁰ and rating factor¹¹. Applicants were disqualified if they had: a) an open IG or GAO audit finding related to the HOPE VI or Capital Fund Programs as of the date the application was due to HUD and / or b) failed to meet its performance requirements as required in the applicable HOPE VI Revitalization Grant Agreement by the date the application was due to HUD. Other threshold factors were site control, committed funds and zoning. As a rating factor, past performance included whether an applicant had met deadlines for submission of supplemental submissions; submission of the community and supportive services work plan; procurement of the program manager; and execution of the master development agreement. The factor also included a score for percent of HOPE VI funds obligated, with low obligation rates being penalized.

In FY 2003 HUD continued using past performance as a criterion for funding¹². Similar to FY 2002, this criterion included threshold factors and a rating factor. Applicants were disqualified if they had an open IG or GAO audit finding related to the HOPE VI or Capital Fund programs as of the date the application was due to HUD. Other threshold factors included site control, committed funds and zoning. As a rating factor, past performance included a score based on the percent of unit construction completed.

Field Offices and HOPE VI Oversight

HUD recognizes the importance of coordinating HOPE VI grant management and oversight activities with field offices. Field offices in Florida, Kentucky, New York, and Ohio are now directly managing HOPE VI grants in their region and helping to alleviate large grant portfolios among headquarters based grant managers. Moreover, the HOPE VI program is coordinating project oversight and annual audits with field offices across the HOPE VI portfolio to expand the capacity of HUD to more directly monitor the progress of HOPE VI projects.

Making HOPE VI Grantees Accountable

HUD has made significant strides in its oversight of HOPE VI grantees and management of the HOPE VI program. HOPE VI oversight and management has evolved from an overly flexible approach with fluid production deadlines and expectations to a more balanced approach that makes HOPE VI grantees and HUD staff accountable for the progress of HOPE VI projects.

¹⁰ 2002 *HOPE VI Revitalization Grant Application*. U.S. Department of Housing and Urban Development. Pg. 20.

¹¹ 2002 *HOPE VI Revitalization Grant Application*. U.S. Department of Housing and Urban Development. Pg. 25.

¹² 2003 *Notice of Funding Availability for Revitalization of Severely Distressed Public Housing*. Federal Register, Vol. 68, No. 203. 60189-60190.

To increase accountability, HUD has placed a greater emphasis on meeting deadlines and completion of HOPE VI developments. HUD provided a grace period during the first half of 2002 that allowed PHAs to revise their existing development schedules based on their own determinations of when they would complete a milestone activity. However, in June of 2002 these self-imposed checkpoints were "locked". To better track progress toward achieving the locked checkpoints, the Department upgraded the Grants Management System so that grantees have the ability to update their locked checkpoint completion dates on a continual basis via the system website.

Review of locked checkpoint completions is the Department's primary method of measuring the progress of the HOPE VI program and determining whether there might be a future grant default. As such, it is imperative that grantees move forward to complete the development activities that are related to these locked checkpoints and to inform the Department immediately upon completion of each activity. Failure to complete grant activities by the planned completion dates, or failure to report completion of a critical milestone, may cause the Department to place a grant in default.

In November 2003, five housing authorities (Biloxi, MS; Detroit, MI; Tulsa, OK; Washington, DC; and Wheeling, WV) were put into default because they had missed more than 10 of these critical milestones. Even though many grants are behind schedule, these grants have missed 10 or more key activities e.g., hiring a developer, relocating residents, beginning and ending construction. The default letters stated that the Department would deduct funds from their HOPE VI grants if they did not meet their implementation checkpoints within 90 days.

If a PHA does not meet these self-imposed performance measures within 90 days, \$1,000 daily will be deducted from the original grant for each critical milestone that is missed. For example, if a housing authority missed 10 critical milestones, they would be fined a total of \$10,000 a day.

Oversight of CSS has also improved significantly over the last three years. In 2000, HUD added a CSS section to the quarterly reporting system. Grantees report their current caseload, location of residents in the caseload and the number of enrollments and completions for social services (e.g., employment preparation, job skills training enrollments / completions, high school or equivalent education enrollments and completions, childcare, employment, and homeownership) every quarter through this system. Grantees also set yearly and quarterly goals for service enrollments and completions. HUD staff monitor progress toward these goals and score grantees across a portfolio triage system to determine the level of technical assistance that each site requires. Poor performance in meeting service goals, difficulty in establishing and managing case management services, conflicts with resident groups, relocation problems, and loss of leverage / in-kind support or service partners can trigger site visits from HUD staff. Additional monitoring and technical assistance is provided by technical assistance providers contracted by HUD to work directly with HOPE VI grantees on their CSS plans and implementation.

D. Proposed alternative housing strategies to mitigate recapture of funds on residents at failed HOPE VI projects

The original Senate language in the Appropriations Conference Report to accompany H.R. 2673 for the Fiscal Year Ending September 30, 2004 included a request that HUD provide information on proposed alternative housing strategies that would mitigate recapture of funds on residents at failed HOPE VI projects. This request did not pass and was removed from the final appropriations language.

Therefore, the Department has not developed a proposal for alternative housing strategies to mitigate the impact that a large-scale recapture of funds would have on residents. However, the Department will continue to evaluate the need to recapture all or a portion of a grant from low-performing projects on a case-by-case basis. The Department will also continue to hold housing authorities responsible for unit production, including fines for poor performance.

HOUSING COUNSELING

Question. Will FHA require borrowers who secure a zero downpayment mortgage to participate in homeownership counseling? If so, is FHA—as the insurer—planning to implement additional oversight or enhanced monitoring of these mortgages? Will FHA require that loan servicers conduct additional loan monitoring for zero downpayment loans? What plans are in place for assessing the effectiveness of the new zero downpayment product?

Answer. Yes, housing counseling will be a requirement to participate. FHA has developed this program to complement its existing affordable housing programs. As a result, FHA's existing monitoring and review infrastructure provide sufficient and appropriate program controls. In addition, because all mortgages made under this program will be risk assessed by the TOTAL mortgage scorecard, which allows FHA to collect important information about loan characteristics including a "ranking" of the overall perceived risk, FHA will be able to quickly determine if underwriting criteria need to be revised based on loan performance.

FHA expects loan servicers to provide the same level of professional and responsive service irrespective of the initial equity in the property. Servicers are required to track loan performance and to report to FHA any instances of default.

FHA will carefully monitor loan performance. FHA tracks performance of all its mortgages by product type, by fiscal year endorsed, by originating lender and other criteria as needed. These mortgages will be separately identified in FHA's system of records and will be monitored for performance, as are all other mortgages that FHA insures.

DEMAND FOR ZERO DOWNPAYMENT

Question. In HUD's budget justification, HUD estimates that the demand for the zero downpayment product will be 109,000 new cases in 2005. How did you come to this estimate, and in developing the estimate, did you consider the following:

- Experience of other agencies, such as VA or USDA?
- Consult with secondary market participants that purchase zero downpayment mortgages, such as Fannie Mae or Freddie Mac?
- Consult with other mortgage underwriters, such as private mortgage insurers?

Answer. In estimating the demand for the Zero Downpayment program, FHA took into account its knowledge of the home lending and mortgage insurance industries, its experience with homebuyers using various types of downpayment assistance, and assumptions about how rapidly it could implement a new program.

Furthermore, FHA's demand estimate is consistent with studies showing that initiatives to assist potential homebuyers in overcoming the downpayment hurdle will have a larger impact in raising homeownership rates than initiatives that lower the interest rates or monthly mortgage expenses. These studies show that about 28 percent of renters who cannot afford a modestly priced home are constrained only by downpayment costs.

CONVENTIONAL CREDIT

Question. In HUD's budget justification, HUD estimates that 36,000 cases that would otherwise qualify for the regular 203(b) program are expected to choose the zero downpayment product. Would the rest of the 109,000 cases have received loans from the conventional market? Under what terms and conditions?

Answer. HUD does not assume that the rest of the 109,000 cases would have received loans from the conventional market. It is unlikely that many borrowers seeking a mortgage under the Zero Downpayment program would qualify for a conventional mortgage outside of the subprime market. Most borrowers would probably postpone the decision to purchase a home until they had sufficient savings.

CONVENTIONAL ZERO DOWN MORTGAGES

Question. Currently zero downpayment mortgages are available in the conventional market (in which they may use stricter underwriting requirements for these products than FHA would be using for the zero down product). What is the size of this market? Who makes such loans now?

Answer. HUD does not have data on the size or composition of the conventional market for zero downpayment mortgages.

CREDIT RISK

Question. What types of borrowers does FHA expect to attract with the zero downpayment product, and how will the credit risk of these borrowers compare to the

credit risk of borrowers receiving low downpayment loans from the conventional market?

Answer. The program would assist those creditworthy but cash-poor working individuals and families excluded from purchasing their first home. The program is limited to first-time homebuyers and HUD expects that the program would be especially beneficial to those in markets where high rental costs inhibit the tenants' ability to save the downpayment. As the President said when signing the American Dream Downpayment Act, the inability to save the required downpayment is the most significant barrier to homeownership. Further, numerous studies since have indicated that removing the downpayment barrier would have a more dramatic effect on the homeownership rate than would other tools because removing the downpayment barrier would address the most significant reason why families and individuals cannot afford to purchase a home. The downpayment and closing cost barrier would be lessened and funds that would otherwise have to go towards the downpayment could be used to lower other debts to manageable levels. In fact, studies show that about 28 percent of renters who cannot afford a modestly priced home are constrained only by downpayment costs.

FHA does not have credit profiles on low downpayment loans from the conventional market so it cannot perform such a comparison.

ADVERSE SELECTION

Question. To what extent does the zero downpayment product address the issue of adverse selection as it relates to the borrowers for whom FHA is competing with the conventional market?

Answer. Adverse selection will continue with or without the Zero Downpayment product offering; the GSEs have resources not available to HUD and offer an array of mortgage products that FHA does not have authority to provide. Nevertheless, this program will allow FHA to have a product offering similar to those of Fannie Mae and Freddie Mac, and without the income and location restrictions often associated with those products in the conventional market. FHA's product would be available everywhere with only the amount of the mortgage limited by property location. Many conventional products are limited to borrowers with incomes that do not exceed 100 percent of the area's median or to specific geographical areas.

COMPETITION WITH THE CONVENTIONAL MARKET

Question. To what extent will FHA be able to compete with the conventional market and ensure that the mortgages FHA underwrites are not too risky?

Answer. FHA is not attempting to "compete" with the conventional market, but rather wishes to operate a successful program that provides homeownership opportunities to those creditworthy individuals and families that may not qualify under the more stringent guidelines of Fannie Mae and Freddie Mac. FHA believes that it can serve that underserved segment of the market and do so in a prudent and responsible manner by adopting sound credit-underwriting standards.

FANNIE MAE AND FREDDIE MAC

Question. Have Fannie Mae and Freddie Mac implemented pilot programs for their low and no downpayment products before making these products generally available? If so, did you consider taking such an approach with FHA's zero down product?

Answer. HUD is not privy to the market tests that may have been conducted by Fannie Mae and Freddie Mac. However, FHA believes that the program should be available nationwide to all qualified families and not limited to certain geographical areas or otherwise restricted by income limits.

LOAN MONITORING

Question. Will you be monitoring any differently loans made with no downpayment? Do you expect that FHA loan servicers to monitor these loans any differently? How and when will you know whether these loans are performing better or worse than you expected?

Answer. Since all mortgages made under this program will be risk assessed by the TOTAL mortgage scorecard, which allows FHA to collect important information about loan characteristics including a "ranking" of the overall perceived risk, FHA will be able to quickly determine if underwriting criteria need to be revised based on loan performance. In addition, the algorithm that FHA has adopted to select mortgage insurance applications for post-endorsement review includes the initial loan-to-value; the Zero Downpayment mortgages will be selected more often for

quality review. The actual “monitoring,” for which FHA interprets to mean default and claim experience, will be performed as usual. FHA expects loan servicers to provide the same level of professional and responsive service irrespective of the initial equity in the property. FHA tracks performance of all its mortgages by product type, by fiscal year endorsed, by originating lender. These mortgages will be separately identified in FHA’s system of records and will be monitored for performance, as are all other mortgages that FHA insures. FHA will know as soon as a mortgage insured under this program is reported as in default.

HOMEOWNER EQUITY

Question. With a zero downpayment loan, borrowers effectively end up with a loan that exceeds the value of the property. Now, in recent years home values have been increasing dramatically, but if home values were to decline, what value is there to homebuyers in having mortgages that exceed the value of the house?

Answer. Generally, in the long run, home values have tended to rise. If home values were to decline for a brief period, borrowers with an FHA-insured Zero Downpayment Mortgage might choose to continue to enjoy the shelter and housing services provided by their home, especially if their borrowing costs compare favorably with rental costs in the community.

LOAN PERFORMANCE ASSUMPTIONS

Question. Do you expect the zero downpayment loans to perform worse than other FHA insured loans? To what extent? Likewise, how do you expect the performance of zero downpayment loans to compare to the performance of comparable conventional loans? On what basis did you estimate the performance of the zero downpayment loans? For example, did FHA take into consideration the following?

- 1. Extrapolate from a subset of a prior program study, such as FHA loans with very low downpayments (i.e., 97 percent or greater)?
- 2. Experience of other agencies, such as VA or USDA?
- 3. Consult with secondary market participants that purchase zero downpayment mortgages, such as Fannie Mae or Freddie Mac?
- 4. Consult with mortgage underwriters, such as private mortgage insurers?

Answer. FHA does not have data on the performance of conventional zero downpayment loans. FHA has conservatively priced the premiums required to maintain its fiduciary responsibility to the MMI Fund. In addition, many industry sources would argue that credit history is the primary indicator of default risk, not the initial equity investment in the property.

CASH FLOW ASSUMPTIONS

Question. How would you expect the projected loan performance for the zero downpayment product to affect cash flows for existing FHA mortgages?

Answer. FHA expects that, in fiscal year 2005, 36,000 (one-quarter) of the homebuyers for the Zero Downpayment program would otherwise have been served by the FHA regular program, most probably as homebuyers with downpayment assistance. Because these borrowers pose above average risk to the Fund, FHA expects that cash flows for its regular program will improve.

PREPAYMENTS

Question. How do you expect the zero downpayment product to perform in terms of prepayment?

Answer. FHA did not make any explicit prepayment assumptions for the Zero Downpayment program. Loans with higher loan-to-value ratios generally prepay more slowly than loans with lower LTV ratios, but most FHA loans have high loan-to-value ratios.

CREDIT SUBSIDY ANALYSES

Question. Can you please provide for the committee the analyses HUD prepared in developing the estimated credit subsidy for this new product, including any analysis showing the expected prepayments and foreclosures for these loans and all cash flows, including premiums and recoveries.

Answer. FHA used the regular MMI credit subsidy model for fiscal year 2005 with the claim and premium assumptions applicable to the Zero Downpayment program to make credit subsidy estimates for the Zero Downpayment program.

ACTUARIAL REVIEW

Question. The latest actuarial review of the MMI fund, prepared by Deloitte & Touche, states that the MMI fund had an economic value of \$22.736 billion at the end of fiscal year 2003. How do you expect the proposed zero downpayment product to effect the value of the fund over the coming years?

Answer. Because we estimate the zero downpayment loans to have a negative credit subsidy, we expect them to contribute to the positive economic value of the Fund.

ACTUARIAL TOOLS

Question. GAO recommended in 2001 that HUD should develop criteria for measuring the actuarial soundness of the Fund and develop better tools for assessing the impact that policy changes may have on the volume of riskiness of loans that FHA ensures. What tools have you used to evaluate the proposed zero-down product? Generally, what steps has HUD taken to improve the tools it uses to assess such policy changes?

Answer. HUD gauges the soundness of FHA's insurance funds in several ways. First, the annual independent actuarial review of the MMI Fund provides us with an outside expert's estimate of the capital ratio of the overall fund, and the economic value of new business coming into the Fund. The capital ratio tells us if the existing books of business are financially sound, while the economic value estimates of new business tell us if the marginal impact of new loans insured is adding or detracting from the financial health of the Fund. Secondly, HUD has developed its own cash flow models of FHA's MMI, and GI/SRI Funds business, and uses these models: (1) to estimate the liability for loan guarantees (net present value of future cash flows from existing insured loans) for the existing books of business, and (2) to estimate the credit subsidy rate (net present value of all cash flows at the time new loans are insured divided by dollars endorsed) on future business. Finally, HUD continually monitors trends in defaults and claims through regular monthly and quarterly management reports, and ad-hoc reports as specific issues or loan performance issues arise.

For the proposed zero-down product, HUD was able to measure the relative claim experience of other loans it already insures for which borrowers make no downpayment (specifically loans with downpayment assistance), and used this experience to make assumptions as to the likely performance of the zero down loans. These assumptions were run through our cash flow models along with the higher proposed premium structure for these loans to determine that the zero down loans would have a negative credit subsidy, and would not adversely affect the economic value of the MMI Fund.

ACTUARIAL SOUNDNESS

Question. In proposing the zero down product, does that mean that you think that the fund is actuarially sound, and what criteria have you developed for making this judgment?

Answer. Yes, FHA believes that the MMI Fund is actuarially sound based on annual independent actuarial analyses which show the fund's capital ratio has remained well above the statutory 2 percent minimum for 8 years in a row now, and the economic value of new business coming into the Fund each year continues to be positive (has a negative credit subsidy). Together, these mean that the fund is healthy and new business is sound, suggesting the Fund will remain healthy.

Specifically, the fiscal year 2003 review estimated the economic value of the MMI Fund at the end of fiscal year 2003 to be \$22.736 billion and the Fund's Capital Ratio to be 5.21 percent, the eighth full year this ratio has exceeded the congressionally mandated target of 2.0 percent. (Economic value is the net present value of the Fund's reserves plus expected future cash flows, and the capital ratio is economic value divided by insurance-in-force.)

In comparison, the fiscal year 2002 actuarial review estimated the economic value and capital ratio of the Fund at \$22.636 billion and 4.52 percent, respectively. The increases in both measures for fiscal year 2003 were driven by the large positive economic value Deloitte and Touche placed on a record dollar volume of new loans FHA insured in fiscal year 2003 along with the rapid prepayment of older loans, keeping the end-of-year insurance-in-force (denominator of the capital ratio) down.

GI/SRI FUND

Question. The possibility of using the GI/SRI fund to insure the zero downpayment product has been raised. Under what circumstances would you envision the

GI/SRI fund insuring the zero downpayment product? What impact would the new zero downpayment product have on the credit subsidy rate of the GI/SRI fund?

Answer. FHA does not plan to create a zero downpayment product in the GI/SRI Fund.

DOWNPAYMENT ASSISTANCE

Question. What do you know about the performance of FHA insured loans that have received downpayment assistance, and what does this tell you about how the new zero down loans may perform?

Answer. FHA loans to homebuyers with downpayment assistance from nonprofits or government agencies have claim rates that are approximately twice those of the average FHA borrower.

DOWNPAYMENT ASSISTANCE PROGRAMS

Question. What impact do you see the proposed zero downpayment loans having on programs which provide downpayment assistance?

Answer. FHA expects the Zero Downpayment program to expand opportunities for homebuyers to purchase a home without cash for a downpayment, especially in communities without downpayment assistance providers. Studies suggest that a nationwide program that removes the downpayment barrier would especially benefit minority homebuyers.

PAYMENT INCENTIVES

Question. HUD is proposing a legislative change that would enable borrowers with poor credit ratings to qualify for FHA insurance. FHA would still require borrowers to meet debt, income, and repayment ability standards. FHA would also require borrowers to have greater owner equity and would charge borrowers upfront and annual premiums that are higher than those for FHA's regular 203(b) mortgage product. Up-front premiums for this new product would be 2.25 percent and annual premiums would be 0.75 percent. Subsequently, the annual premium may be reduced or eliminated due to good mortgage payment performance; the budget justifications indicate that 60 months would be the trigger point. HUD's proposed appropriations language would, however, enable HUD to establish and collect an annual premium not exceeding 1.0 percent of the remaining insured principal. Furthermore, HUD's proposed appropriations language dictates that these mortgages would be insured by the MMI fund.

HUD expects an increased risk of default associated with these mortgages; specifically, HUD estimates a default rate of 18.73 percent (i.e., lifetime defaults as percentage of disbursements) as compared to the estimated default rate of 9.06 for FHA's regular 203(b) mortgage product. HUD also estimates a recovery rate of 71.90 percent (i.e., recoveries as a percentage of lifetime defaults). HUD estimates that these mortgages would have a subsidy rate of -0.56 percent and that this program will generate 60,000 new mortgages per year and \$45 million in additional negative subsidy. (HUD estimates that its MMI program has a subsidy rate of -1.93 percent.)

Will the underwriting standards for the proposed payment incentives product be very similar to those for FHA's 203(b) product? If so, will the payment incentives product be underwritten using the new TOTAL Scorecard system? Since the payment incentives product is viewed to be "more risky", did HUD consider using more rigorous standards for borrowers qualifying for the zero down product?

Answer. Yes, all mortgages under the payment incentives program must be risk assessed using the FHA TOTAL mortgage scorecard. Underwriting criteria, other than the downpayment percentage, have not yet been developed.

OWNER EQUITY

Question. Are you asking for greater owner equity? If so, How much additional equity? How will the other underwriting criteria counterweight the additional risk of a loan to a borrower with a lower credit score?

Answer. It was assumed that these loans would not exceed 90 percent LTV.

ANNUAL PREMIUMS

Question. Regarding annual premiums associated with the payment incentive product: (a) will annual premiums be reduced or eliminated at 60 months?; (b) will there be specific criteria used to determine that premiums will be reduced or eliminated (e.g., what payment history would be necessary?); and (c) if they are reduced, what will they be reduced to?

Answer. It was assumed that borrowers would pay an annual premium of 75 basis points for the first 5 years of the loan, dropping to 50 basis points until the loan was paid down to 78 percent LTV.

HOMEOWNERSHIP COUNSELING

Question. Will FHA require borrowers who secure a payment incentive product to participate in homeownership counseling?

Answer. Housing counseling will be required for purchase transaction.

RISKS

Question. Considering the risks associated with the payment incentive product, did HUD consider initiating a pilot program?

Answer. FHA is confident that the agency can operate the program nationwide without first offering the program as a pilot.

OVERSIGHT

Question. Will FHA implement additional oversight or enhanced monitoring of payment incentive mortgages?

Answer. FHA has developed this program to complement its existing affordable housing programs. As a result, FHA's existing monitoring and review infrastructure provides sufficient and appropriate program controls. In addition, since all mortgages made under this program will be risk assessed by the TOTAL mortgage scorecard, which allows FHA to collect important information about loan characteristics including a "ranking" of the overall perceived risk, FHA will be able to quickly determine if underwriting criteria need to be revised based on loan performance.

LOAN SERVICERS

Question. Will FHA require that loan servicers conduct additional loan monitoring for payment incentives loans?

Answer. No, FHA expects loan servicers to provide the same level of professional and responsive service irrespective of the initial equity in the property. Servicers are required to track loan performance and to report to FHA any instances of default. Mortgagors may also opt to have counseling agencies contact them directly should they become 60 days delinquent on the mortgage.

PROGRAM ASSESSMENT

Question. What plans are in place for assessing the effectiveness of the proposed payment incentives product?

Answer. FHA will monitor the performance of the Payment Incentives program as carefully as it monitors the performance of all of its mortgage insurance programs. With a new program, early default and claim rates are the best indicators of program performance.

VOLUME ESTIMATE

Question. In HUD's budget justification, HUD estimates that this program would generate 60,000 new mortgages per year. How did you come to this estimate? In developing this estimate, did you consider the following?

- 1. Experience of other agencies, such as VA or USDA?
- 2. Consult with secondary market participants that purchase zero downpayment mortgages, such as Fannie Mae or Freddie Mac?
- 3. Consult with other mortgage underwriters, such as private mortgage insurers?

Answer. To estimate the potential demand for the Payment Incentives program, HUD analyzed data from the Survey of Consumer Finances on renters with sufficient income to purchase a home but who have imperfect credit.

SUBPRIME MARKET

Question. Currently mortgages are available in the conventional market (subprime market) to borrowers with questionable credit histories. How relevant is the experience of these mortgages that are available through the subprime market? To what extent will FHA be able to compete with subprime market and ensure that the mortgages FHA underwrites are not too risky?

Answer. HUD does not have data on the performance of subprime loans. In developing underwriting criteria for this program, FHA will rely on its experience in serving borrowers with imperfect credit. In addition, it will require pre-purchase

counseling and the use of the TOTAL mortgage scorecard. TOTAL provides FHA with a tool with which to manage the incremental risk assumed by the payment incentive loans.

BORROWERS

Question. What types of borrowers does FHA expect to attract with the payment incentives product, and how will the credit risk of these borrowers compare to the credit risk of borrowers receiving loans similar to the payment incentives loans from the conventional market?

Answer. HUD does not have data on the performance of conventional loans. With the Payment Incentives program, FHA expects to serve borrowers who have impaired credit, but have the cash for a significant downpayment. It also expects to serve borrowers with subprime loans who have impaired credit but have established a payment history and wish to refinance into a lower cost product.

LOAN PERFORMANCE

Question. Do you expect the payment incentives loans to perform worse than other FHA insured loans? To what extent? On what basis did you estimate the performance of the payment incentives loans? For example, did FHA take into consideration the following:

- Extrapolate from a subset of a prior program study, such as FHA loans with questionable credit histories?
- Consult with secondary market participants that purchase zero downpayment mortgages, such as Fannie Mae or Freddie Mac?
- Consult with mortgage underwriters, such as private mortgage insurers?

Answer. Based on its experience with credit impaired borrowers and its knowledge of the home lending and mortgage insurance industries, FHA expects that the Payment Incentives program will have claim rates that about double those of its regular program.

CREDIT SUBSIDY ANALYSES

Question. Can you please provide for the committee the analyses HUD prepared in developing the estimated credit subsidy for this new program, including any analysis showing the expected prepayments and foreclosures for these loans and all cash flows, including premiums and recoveries?

Answer. In developing a credit subsidy estimate, FHA used its regular MMI credit subsidy model with downpayment, claim rate, and premium assumptions applicable to the Payment Incentives program.

ACTUARIAL REVIEW

Question. The latest actuarial review of the MMI fund, prepared by Deloitte & Touche, states that the MMI fund had an economic value of \$22.736 billion at the end of fiscal year 2003. How do you expect the payment incentives program to effect the value of the fund over the coming years?

Answer. As with the zero downpayment loans, we estimated that the payment incentive loans would have a negative credit subsidy, and therefore, we expect them to contribute to the positive economic value of the fund.

GAO RECOMMENDATIONS

Question. GAO recommended in 2001 that HUD should develop criteria for measuring the actuarial soundness of the Fund and develop better tools for assessing the impact that policy changes may have on the volume of riskiness of loans that FHA ensures. What tools have you used to evaluate the proposed payment incentives product? Generally, what steps has HUD taken to develop better tools for assessing such changes?

Answer. HUD gauges the soundness of FHA's insurance funds in several ways. First, the annual independent actuarial review of the MMI Fund provides us with an outside expert's estimate of the capital ratio of the overall fund, and the economic value of new business coming into the Fund. The capital ratio tells us if the existing books of business are financially sound, while the economic value estimates of new business tell us if the marginal impact of new loans insured is adding or detracting from the financial health of the fund. Secondly, HUD has developed its own cash flow models of FHA's MMI, and GI/SRI fund business, and uses these models: (1) to estimate the liability for loan guarantees (net present value of future cash flows from existing insured loans divided by dollars endorsed) for the existing books of business, and (2) to estimate the credit subsidy rate (net present value of

all cash flows at the time new loans are insured) on future business. Finally, HUD continually monitors trends in defaults and claims through regular monthly and quarterly management reports, and ad-hoc reports as specific issues or loan performance issues arise.

For the proposed payment incentive product, HUD will set underwriting criteria such that the relative claim rate experience of these new loans will be about two times that of the average claim rates for all loans currently being insured by the MMI Fund under the regular program. Using this claim rate assumption HUD used its cash flow models along with the higher proposed premium structure for these loans to determine that the payment incentive loans would have a negative credit subsidy, and would not adversely affect the economic value of the MMI Fund.

ACTUARIAL SOUNDNESS

Question. In proposing the payment incentives product, does that mean that you think that the fund is actuarially sound, and what criteria have you developed for making this judgment?

Answer. Yes, FHA believes that the MMI Fund is actuarially sound based on annual independent actuarial analyses which show the fund's capital ratio has remained well above the statutory 2 percent minimum for 8 years in a row now, and the economic value of new business coming into the fund each year continues to be positive (has a negative credit subsidy). Together, these mean that the fund is healthy and new business is sound, suggesting the Fund will remain healthy.

UNEARNED PREMIUM REFUNDS

Question. HUD is proposing a legislative change to restrict payments of refunds of unearned upfront premiums to borrowers who refinance with a new FHA loan; in other words, HUD would eliminate the payment of partial refunds of unearned upfront premiums to borrowers who sell their homes or refinance with conventional loans. HUD's rationale for this change is to provide an incentive for high quality current MMI borrowers to refinance with MMI—as retaining the refund for MMI refinances will partially offset the upfront premium cost to the borrower for a new loan. The restriction will affect mortgages that become insured on or after the date of enactment of the legislation. HUD estimates that eliminating refunds for borrowers who refinance with conventional loans will add \$78 million in negative subsidy. Can you explain HUD's rationale for this change?

Answer. With this policy change, some borrowers who might have refinanced into a conventional mortgage will have a small, albeit declining, incentive to refinance with FHA.

FHA BORROWERS

Question. Does this mean that an FHA borrower who sells his house would lose his upfront premium?

Answer. Yes, a borrower who sells his house would be ineligible for a refund.

PROGRAM DEMAND

Question. What is the expected impact of the proposed change in policy on demand for FHA mortgage insurance? How many additional FHA borrowers do you estimate will choose to refinance with FHA under this proposal? Conversely, how many potential FHA borrowers do you think FHA will lose due to the effective increase in the premium?

Answer. The number of borrowers who choose to refinance with FHA depends largely upon interest rates and house price appreciation. When interest rates are falling, borrowers whose homes have appreciated sufficiently will refinance into conventional mortgages, while those whose homes have appreciated more slowly will refinance with FHA. Between fiscal year 2001 and 2003, a period of falling interest rates, FHA recapture rates (the percent of prepaid loans refinanced with FHA) ranged between 18.5 and 24.7 percent. In contrast, in fiscal years 1995 and 2000, years when interest rates rose, FHA recapture rates were 3.9 and 3.2 percent, respectively. Borrowers who refinance with FHA are unaffected by the policy change. Borrowers who are eligible to refinance into conventional mortgages will experience a small and declining incentive to remain with FHA.

CREDIT SUBSIDY ANALYSIS

Question. Please provide for the committee the analyses HUD prepared in developing the estimated credit subsidy for these proposed changes, including any anal-

ysis showing the expected prepayments and foreclosures for these loans and all cash flows, including premiums and recoveries.

Answer. FHA used the regular MMI credit subsidy model for estimating the credit subsidy impact of the change in refund policy. All assumptions remained the same except for the assumptions about the refund policy.

EFFECT ON MMI ECONOMIC VALUE

Question. The latest actuarial review of the MMI fund, prepared by Deloitte & Touche, states that the MMI fund had an economic value of \$22.736 billion at the end of fiscal year 2003. How do you expect the proposed legislative and administrative changes to effect the value of the fund over the coming years?

Answer. Because we believe the administrative changes will result in a credit subsidy that is more negative, we believe that the impact of these changes on the economic value of the Fund will be positive.

ACTUARIAL CRITERIA

Question. GAO recommended in 2001 that HUD should develop criteria for measuring the actuarial soundness of the Fund and develop better tools for assessing the impact that policy changes may have on the volume of riskiness of loans that FHA ensures. What tools have you used to evaluate the proposed changes in refunds of upfront premiums? Generally, what steps has HUD taken to develop better tools for assessing such policy changes?

Answer. HUD gauges the soundness of FHA's insurance funds in several ways. First, the annual independent actuarial review of the MMI fund provides us with an outside expert's estimate of the capital ratio of the overall fund, and the economic value of new business coming into the fund. The capital ratio tells us if the existing books of business are financially sound, while the economic value estimates of new business tell us if the marginal impact of new loans insured is adding or detracting from the financial health of the fund. Secondly, HUD has developed its own cash flow models of FHA's MMI, and GI/SRI fund business, and uses these models: (1) to estimate the liability for loan guarantees (net present value of future cash flows from existing insured loans) for the existing books of business, and (2) to estimate the credit subsidy rate (net present value of all cash flows at the time new loans are insured divided by dollars endorsed) on future business. Finally, HUD continually monitors trends in defaults and claims through regular monthly and quarterly management reports, and ad-hoc reports as specific issues or loan performance issues arise.

For the proposed administrative changes, HUD was easily able to evaluate the impact of these changes by making small adjustments in its cash flow models consistent with the proposed changes.

PREMIUM REFUND CRITERIA

Question. In proposing changes involving refunds of the upfront premium, does that mean that you think that the fund is actuarially sound, and what criteria have you developed for making this judgment?

Answer. Yes, FHA believes that the MMI Fund is actuarially sound based on annual independent actuarial analyses which show the fund's capital ratio has remained well above the statutory 2 percent minimum for 8 years in a row now, and the economic value of new business coming into the fund each year continues to be positive (has a negative credit subsidy). Together, these mean that the fund is healthy and new business is sound, suggesting the fund will remain healthy.

PREMIUM EARNING PERIOD

Question. HUD is proposing an administrative change to shorten the time available for partial rebates of upfront insurance premiums from the current 5 years to 3 years. Only homeowners repaying their FHA loans within this period (i.e., 3 years) would get a portion of the upfront premium back, on a sliding scale of amortization. This provision will only apply to loans insured after the effective date of the administrative changes. HUD estimates that this will yield \$91 million in additional negative subsidy. Can you explain the rationale behind this change? FHA borrowers used to be eligible to receive this rebate for up to 7 years after the loan was originated. This was changed to 5 years, and now HUD is seeking to change the time limit to 3 years. That is, what has changed that causes you to believe that FHA should accelerate the speed with which it earns the upfront premium?

Answer. The cash flow analysis shows that MMIF upfront premiums approximately equal claim outflows at the end of 3 years, suggesting the premium is fully earned before the cut-off of the current 5-year refund schedule.

SUBSIDY ESTIMATE

Question. In HUD's budget justification, it states that this change is expected to yield additional negative subsidy of \$91 million. How did HUD arrive at this estimate?

Answer. FHA used the regular MMIF credit subsidy model for estimating the credit subsidy impact of the change in refund policy. All assumptions remained the same except for the assumptions about the refund policy.

CREDIT SUBSIDY ANALYSES

Question. Please provide the analyses HUD prepared in developing the estimated credit subsidy for these proposed changes, including any analysis showing the expected prepayments and foreclosures for these loans and all cash flows, including premiums and recoveries.

Answer. FHA used the regular MMIF credit subsidy model for estimating the credit subsidy impact of the change in refund policy. All assumptions remained the same except for the assumptions about the refund policy.

LEAD BASED PAINT REDUCTION OFFSETS

Question. HUD is requesting \$139 million for lead based paint hazard reduction—a \$35 million reduction over the amount enacted in fiscal year 2004. The reduction results largely from the \$49.7 million for grants targeted at areas with the highest lead paint abatement needs—Lead Hazard Demonstration Project. According to the budget justification, no funding is requested for fiscal year 2005 for this project because the program needs can now be met (offset) in part through the Lead Hazard Control Grants Program. The budget also increased the Lead Hazard Control Grants Program by \$14.8 million. In addition, HUD eliminated the \$25 million Lead Reduction Initiative from the HOME program under Community Planning and Development. What analysis was done to justify eliminating the Lead Reduction Initiative from the HOME program?

Answer. The Lead Reduction Initiative within the HOME program was never funded by Congress. After further discussion and analysis, it became clear that the activities under this program appeared to largely duplicate the Department's regular and successful Lead Hazard Control Program because lead-based paint activities are already an eligible expense under the HOME program. Thus, it was not proposed again in the President's budget request for the HOME program.

STATUS OF UNEXPENDED BALANCES (ALL PROGRAMS)

Question. HUD carries over large unobligated uncommitted balances from year to year. These balances result from underutilization of program funds and other reasons. According to HUD's Budget Appendix, its fiscal year 2003 end-of-year unobligated balance was \$8.9 billion. While the amount unexpended needs to be reconciled, some of these funds may be available to offset HUD's fiscal year 2005 budget request.

Are unexpended balances being used to offset HUD's fiscal year 2005 budget request? If so, can this action be attributed to their assessment of unexpended balances (recommended by GAO in 1999, 2001 and again in 2002)?

Answer. Yes, unexpended balances are being used to offset HUD's fiscal year 2005 budget request. In addition to the smaller rescissions proposed in other HUD programs, \$1.6 billion is proposed for a rescission under the Housing Certificate Fund. HUD has been proposing offsets/rescissions in its Budget request at least since the 1997 Budget, long before any GAO recommendations.

STATUS OF UNEXPENDED BALANCES (HCF)

Question. About \$3.28 billion of the total amount in unobligated uncommitted funds remained in the Housing Certificate Fund at the end of fiscal year 2003. HUD's fiscal year 2004 end of year unobligated balance estimate for the Housing Certificate Fund is \$184 million. While the amount unexpended needs to be reconciled, some of these funds may be available to offset HUD's fiscal year 2005 budget request. How much of the \$3.28 billion is attributable to unexpended obligations with in the Housing Certificate Fund in the Section 8 Moderate Rehabilitation program and in the Section 236 Multifamily Mortgage Interest Reduction program?

Answer. Section 236 Multifamily Mortgage Interest Reduction programs a separate program, therefore, none of the unexpended balances in the Housing Certificate Fund are associated with Section 236.

Question. How much of these unexpended obligations will likely be needed for program purposes?

Answer. All unexpended obligations are needed for program purposes.

Question. How does HUD intend to reduce its unexpended balance in the Housing Certificate Fund to \$184 million at the end of fiscal year 2004 as estimated in HUD's Budget Appendix?

Answer. HUD does not intend to reduce its unexpended balance in the Housing Certificate Fund to \$184 million at the end of fiscal year 2004, but rather, the unobligated balance. The unexpended balance includes funds that have already been obligated as well as unobligated funds. The unobligated balance (the \$184 million in the Budget Appendix) is that those funds that have not been obligated.

HOMELESS DEMONSTRATION PROJECT

Question. This was a new initiative approved in fiscal year 2003 for a 2-year period ending in fiscal year 2005. Funds totaling \$10 million were appropriated at that time. The Congress requested that HUD report on the demonstration by March 15, 2004. In response, HUD indicates that it is reporting as part of the Congressional Budget Justification. As such, HUD states that it is proposing to serve homeless persons that have substance abuse issues, and demonstration funds would be used to provide housing. Other resources would be leveraged to provide needed supportive services. Through a competitive selection process, HUD expects to identify best practices and share this information with other homeless providers. HUD is carrying over \$9 million in program funds in fiscal year 2005. What has HUD accomplished under this program since 2003? What analysis has been done to justify that \$10 million might be needed for the program? What is the projected amount needed per award? Why haven't funds been obligated? What is the projected utilization?

Answer. Since this initiative was funded by Congress, we requested and recently received clarification of Congress' intent for the program. While a needs assessment has not been conducted, a substantial portion of chronically homeless people have substance abuse and/or mental illness issues. These individuals either have been on the street for at least a year or have had four episodes of homelessness in the past 3 years. This group is particularly vulnerable. They need permanent housing with comprehensive services. We would anticipate that the awards per project would be up to \$2 million. Once the housing demonstration program is developed and funds are awarded, we would expect that funds would be expended within 3 years.

PUBLIC HOUSING CAPITAL FUND—FREEDOM TO HOUSE DEMONSTRATION

Question. What are the successes and what are the problems these PHAs face?

Answer. Participating PHAs have realized some interesting results while experimenting with: (1) Alternatives to the standard approach for establishing tenant rents; (2) Time limits on the receipt of housing assistance; (3) Administrative streamlining (to cut costs and complexity); (4) Funding flexibility (by combining operating subsidies, modernization grants and Section 8 funding into a flexible funding stream); and (5) Alternate development and financing arrangements to expand the stock of affordable housing.

Evidence to date suggests that deregulation of local HAs may yield benefits in terms of program design and implementation innovations.

For example, several participating PHAs have used the funding fungibility authority for standard program uses, but in a more flexible and efficient manner, to compensate for "losses" in one program area and to develop (through construction, acquisition or rehabilitation) new, affordable housing units. Some participating PHAs implemented changes in housing subsidy formulas with provisions (such as flat rents) that reward resident employment and income growth, and/or with provisions that penalize unemployment and/or with supplemental services and supports to help residents make progress towards self-sufficiency and/or with time limits on assistance. Many participants have used the demonstration to alter specific procedural and reporting requirements, including less frequent re-examination, merged waiting lists, local inspection standards and protocols and other streamlining and paperwork reduction initiatives.

The local flexibility and independence permitted under MTW appears to allow some PHAs to experiment with innovative solutions to local challenges, and to be more responsive to local conditions and priorities to an extent not otherwise permissible under standard rules.

OMHAR

Question. In 2001, the Congress reauthorized the “mark-to-market” program. One of the key provisions of the reauthorization bill requires the Office of Multifamily Housing and Assistance Restructuring or “OMHAR” to be brought under the direct supervision of the Federal Housing Commissioner on October 1, 2004. Can you tell me how OMHAR is operating and what transition plans you have in mind to move the office under FHA by October 1?

Answer. OMHAR continues to operate effectively. They have completed 1,102 restructuring transactions to date. The Office of Housing will assume OMHAR’s activities once OMHAR sunsets on September 30, 2004. A reorganizational plan to effect this change was approved by Deputy Secretary Bernardi on June 22, 2004 and submitted to the appropriate committees in the Senate and House on July 9, 2004.

SECTION 811 DISABLED HOUSING

Question. There is a concern that vouchers that are funded under this account are moved into the mainstream voucher program after being turned in and thus lost to the disabled population. What does HUD do to ensure these vouchers remain funded and available to only eligible persons with disabilities?

Answer. All of the Mainstream Notices of Funding Availability (NOFAs) issued from fiscal years 1997 have included language indicating Mainstream vouchers from Housing for Persons with Disabilities Fund must be initially issued to disabled families, and must be reissued to disabled families upon turnover. Several months ago, HUD initiated changes to its procedures that will enable it to track the usage of Mainstream vouchers (5-year budget authority derived from Section 811 appropriations) designated for disabled families. By no later than September 2004, public housing agencies (PHAs) will be required to begin reporting electronically to HUD (using the Form HUD-50058, Family Report) on the usage by disabled families of these Mainstream vouchers.

SALARIES AND EXPENSES

Question. According to HUD’s Budget Appendix, the Department is requesting \$592 million to fund salaries and expenses in fiscal year 2005—an increase of about \$48 million over the amount enacted in fiscal year 2004 (\$544 million). (Note.—However, the amount enacted in fiscal year 2004 does not reconcile with HUD’s Congressional Budget Justification. HUD’s justification reports \$547 million as the enacted amount in fiscal year 2004). Despite differences in amounts observed in the enacted amount for fiscal year 2004, HUD’s budget justification states that the amount requested in fiscal year 2005 would support 9,405 full time equivalent staff (FTE) in fiscal year 2005. This reflects current FTE increases totaling 126 in the fiscal year 2004 budget, and increases due to anticipated pay raises, time-in-grade increases, promotions, health and other benefits.

HUD’s resource estimation allocation process (REAP) supports a requirement of 9,661 FTEs in fiscal year 2005. According to HUD’s justification, the 9,405 FTE level reflects a pathway to the REAP target of 9,661, incorporating current staffing levels, approved reorganizations, and planned workload accomplishments for fiscal year 2004 and 2005. It appears that the administration is not requesting the increase in staff dictated by its REAP analysis. In addition, HUD’s justification indicates that the 9,405 level includes \$3 million in funding for 8 FTEs for HUD’s Center for Faith-Based and Community Initiatives.

If Congress in fiscal year 2005 does not approve the Center, will there be a need for the full proposed 9,405 level? Does the 2004 FTE level (9,405) factor in the Faith-Based Initiative? If so should it be reduced by 8 FTE? Please reconcile Salaries and Expense enacted levels for fiscal year 2004 between the Budget Justification and the Budget Appendix.

Answer. HUD’s Center for Faith-Based and Community Initiatives (CFBI) was established by Executive Order 13198, Agency Responsibilities with Respect to Faith-Based and Community Initiatives, on January 29, 2001. The purpose of establishing this Executive Department Center was to coordinate department efforts to eliminate regulatory, contracting, and other programmatic obstacles to the participation of faith-based and other community organizations in the provision of social services. Since 2001, Congress has approved annual budgetary requests for this organization each year through fiscal year 2004.

Fiscal year 2004 FTE level of 9,405 includes 8 FTE for CFBI and should not be reduced by 8 FTE. Congress approved 8 FTE in the House of Representatives Conference Report 108-401, Page 1103, dated November 25, 2003 specifically for the CFBI.

HUD's Salaries and Expenses enacted levels for fiscal year 2004 in the 2005 Congressional Budget Justification and the 2005 President's Budget Appendix are reconciled.

The 2005 Congressional Budget Justification, Page I-1, Enacted 2004 column, line "Salaries and Expenses, HUD" reflects \$547,000 and line "Rescission Public Law 10807" reflects -\$3,227 the .059 percent across-the-board rescission, resulting in a net request of \$543,773.

The President's Budget Appendix, Page 555, Program and Financing Schedule, 2004 Estimated column, lines 43.00 Appropriations (Total Discretionary) and 89.00 Budget Authority reflects \$544, the amount net of the rescission, that reconciles with the Budget Justification.

QUESTIONS SUBMITTED BY SENATOR CONRAD BURNS

MONTANA SECTION 8 VOUCHER PROGRAM WAITING LIST

Question. The current waiting list for the State of Montana Section 8 program numbers over 7,685 for a number of vouchers of roughly half this amount. Public housing authorities around the State have separately operated Section 8 programs with similarly long waiting lists. A typical wait in Montana communities for a voucher runs from 2 to 7 years depending on if you qualify for a priority on the waiting list. How will drastic cuts to the voucher program affect these waiting periods?

Answer. The Flexible Voucher Program is expected to be able to serve at least the current number of families assisted, if not more. HUD expects that the program reforms and the administrative flexibility provided to PHAs will result in an increase in the number of families that can be assisted under the Flexible Voucher Program. These reforms will help more needy families make the transition from public assistance to self-reliance and work. As more families transition out of the program, more families on the waiting list will be served. The Flexible Voucher Program will also encourage and enable PHAs to maximize Federal subsidy to serve more families, as was the case in the original Voucher Program.

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Answer. The Flexible Voucher Program is expected to be able to serve at least the current number of families assisted, if not more. HUD expects that the program reforms and the administrative flexibility provided to PHAs will result in an increase in the number of families that can be assisted under the Flexible Voucher Program. These reforms will help more needy families make the transition from public assistance to self-reliance and work. As more families transition out of the program, more families on the waiting list will be served. The Flexible Voucher Program will also encourage and enable PHAs to maximize Federal subsidy to serve more families, as was the case in the original Voucher Program.

TARGETING LOW-INCOME AND DISABLED PEOPLE

Question. By making these reductions, are you targeting the people (low-income and disabled) that need this program the most?

Answer. The Flexible Voucher Program is intended to preserve and improve assistance for low-income and disabled families in need of housing. As previously stated, HUD expects that the program reforms and the administrative flexibility provided to PHAs will result in an increase in the number of disabled and other low-income families that can be assisted under the Flexible Voucher Program.

M&M CONTRACTOR

Question. What is the status of the renewal of the First Preston contract?

Answer. The First Preston's contract expires on July 31, 2004 and we are negotiating a transition period to a new M&M contractor.

METH HOMES

Question. What procedures are in place for HUD and First Preston to handle meth homes?

Answer. These types of homes are not common in HUD's portfolio and are treated on a case-by-case basis. When it has been determined that a meth home has been acquired by HUD, the home is tested by an environmental organization. If abatement is necessary, HUD is responsible for ensuring that the work is completed. Full disclosure at the time of property listing is made to advise potential purchasers that the property was a meth home and what steps HUD has taken to resolve outstanding issues.

In those instances where HUD and/or its management and marketing (M&M) contractors are not aware that a meth home was sold and it is subsequently brought to HUD's attention, the home is inspected/tested and abated as necessary.

FIRST PRESTON

Question. Will First Preston services be "regionalized"?

Answer. No, First Preston's will not be regionalized.

PUBLIC HOUSING RESTRUCTURING

Question. What steps is HUD taking to help with restructuring of public housing?

Answer. The Department actively works with a wide array of stakeholders in the preservation of assisted, affordable housing. Specific restructuring tools were provided by the Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA) to the Office of Multifamily Housing Assistance Restructuring (OMHAR). OMHAR sunsets on September 30, 2004, but the Mark-to-Market (M2M) restructuring authorities under MAHRA continue until September 30, 2006.

OMHAR SUNSET

Question. With OMHAR ready to sunset after this fiscal year, will restructuring services revert back to the HUD agency?

Answer. Yes. The Office of Multifamily Housing Assistance Restructuring (OMHAR) sunsets on September 30, 2004, but the Department retains the Mark-to-Market (M2M) restructuring authorities under the Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA) until September 30, 2006.

RESTRUCTURING PUBLIC HOUSING

Question. Will there be additional training for these folks to conduct a fair and equitable survey for comparable rents?

Answer. It is anticipated that the existing group of Participating Administrative Entities (PAEs) will continue to perform their contractual roles in determining market rents as part of their due diligence, when developing their recommendation for a restructuring plan. The Department will continue to provide oversight, direction and training to the PAEs. This includes the PAEs responsibility for rent determinations.

MANUFACTURED HOUSING RULES

Question. When will the rules for Manufactured Housing be released? These were initially passed in the 107th Congress and States like Montana do not currently have the infrastructure to deal with issues surrounding manufactured homes.

Answer. The Department is working to publish a proposed rule for the Model Installation Standards this year. The Department is also developing the proposed regulations for both the installation and dispute resolution programs.

The Manufactured Housing Improvement Act of 2000 mandates that the Department establish the new installation and dispute resolution programs by December 2005. Advanced Notices of Proposed Rulemaking for these programs were published for comment in March 2003. The Department is cooperating with the Manufactured Housing Consensus Committee to maintain a timely publication schedule for the rules.

The Department understands that States such as Montana do not currently have the infrastructure to deal with issues surrounding manufactured homes. In Montana, and any other State that chooses not to establish a manufactured housing installation or dispute resolution program, the Department will assume the responsibility for administration of these programs.

SAFETY AND SECURITY FUNDING

Question. The drug elimination funds were cut last year from their budget. They asked for security measures/funding due to the budget cuts, especially with regard to the large public housing facilities. Public housing could be the subject to terrorist

attacks, meth labs, and/or prostitution organizations. The President's budget came out with zero funding for safety and security. How can these problems be addressed?

Answer. Anti-drug and anti-crime activities, formerly associated with the Public Housing Drug Elimination Program, are currently allowable expenses of a Public Housing Agency (PHA) under the Public Housing Operating Fund. As with any allowable expense, including protective services, it is a matter of local determination and priority to establish the level of services a PHA wishes to provide for its residents.

FAMILY SELF-SUFFICIENCY COORDINATOR POSITIONS FUNDING

Question. Additionally, the budget also cut the Restoration/Continuation of the (FSS) Family Self Sufficiency position, who keeps families moving to Section 8 homeownership. Without this person, they don't have the personnel resources to focus on this priority. How can the President's goal of increased homeownership be met with the elimination of this essential position?

Answer. Family self-sufficiency activities will remain a core component of the Flexible Voucher Program and PHAs participating in self-sufficiency activities will be rewarded through incentive bonuses. The administrative fee bonus funding may be used for activities such as FSS staff salaries to ensure coordination with supportive service providers, job training and vocational and educational activities.

Further, homeownership assistance for first-time homebuyers is an enhanced activity under the Flexible Voucher Program. The PHA may provide monthly assistance payments to the homebuyer, or may choose instead to provide assistance for the family in the form of a one-time grant of up to \$10,000 to be used as down payment assistance.

Additionally, the Flexible Voucher Program will permit PHAs to design local homeownership programs that address the concerns of local lenders and realtors. HUD expects that this flexibility, along with the new downpayment option, will enhance, not hinder, successful PHA homeownership efforts. PHAs will have the flexibility to address any current lending, real estate or other programmatic barriers that impede wider use of the homeownership voucher option in their communities.

PROPOSED SECTION 8 CUTS

Question. The proposal cuts over \$1 billion in funding from this year's actual funding level. The proposal does not provide full funding for fiscal year 2005. Full funding to pay for all vouchers currently leased requires \$1.6 billion more than the administration's request. Future spending is proposed to be even greater upwards of 30 percent of current funding by fiscal year 2009. Why are these cuts proposed when the Section 8 program is significantly underfunded currently, and with need far outstripping current resources by two or three times the current funding level?

Answer. The Flexible Voucher Program is expected to be able to serve at least the current number of families assisted, if not more, and at funding levels more sustainable than the current program structure will allow. The program reforms and administrative flexibility provided to PHAs will result in an increase in the number of families that can be assisted under the Flexible Voucher Program. This is possible because of savings that will result from badly needed program reforms that reduce the nearly \$2 billion in improper payments that are being made every year, permitting greater flexibility by PHAs to reduce overhead costs and streamline the assistance process, and by encouraging PHAs to provide only as much Federal assistance as needed to pay for fair market rents rather than exceeding market rents. The Flexible Voucher Program will also trigger savings in administrative costs due to greater simplicity and flexibility in income determinations, reducing the necessity of income certifications, and streamlining housing quality inspections.

PREDATORY LENDING

Question. What efforts are being made to combat predatory lending practices?

Answer. Since the Spring of 1999, HUD has been actively involved in combating predatory lending through research, regulation, consumer education and enforcement actions against lenders, appraisers, real estate brokers, and other companies and individuals that have victimized homebuyers. Below are HUD's numerous efforts:

—*Research.*—HUD, through various offices and divisions, is actively engaged in efforts to understand how predatory lending practices occur and their effects on victims so that effective strategies and tactics may be developed to effectively address the problem.

—*Reference/Research Information.*

- HUD Policy Development and Research maintains a predatory lending subject in its electronic FieldWorks, a reference to sources of information on various topics.
- PD&R annually compiles a list of subprime lender specialists that can be used with HMDA data to identify subprime lending patterns. This list has made it possible for researchers and policy analysts to examine both national and local subprime lending patterns.
- PD&R has research in progress that will examine the role of prime lenders and borrower credit quality on subprime lending patterns in low-income and minority areas. This research is also looking at the importance of non-traditional lenders (e.g., pawnshops, payday lenders, cash checkers) in low-income and minority neighborhoods.
- Collaboration.*—The Baltimore Predatory Lending Task Force is a group sponsored by the Community Law Center of Baltimore and has been meeting monthly since 1999. The Task Force is examining all aspects of the issue using Baltimore as a kind of “laboratory.” The Task Force has produced studies and a report to Congress. A wide range of advocacy groups, Federal, State and local government officials, and community groups participate.
- Regulations and Administrative Actions.*
- Anti-flipping Rule.*—HUD published a rule on May 1, 2003, to stop unscrupulous investors from quickly reselling properties at inflated values using an FHA-insured loan. The rule makes properties that have been sold within 90 days of previous sale ineligible for FHA insurance, effectively prohibiting the quick purchase and resale of the property.
- Government Sponsored Enterprise (GSE) Oversight.*—HUD’s most recent regulation establishing the current goals published in October 2000 includes a provision that prohibits Fannie and Freddie from receiving credit toward their affordable housing goals for purchasing loans that are deemed by HUD’s Office of Housing to be high-cost and contain prepaid, single-premium credit life insurance; or prepayment penalties.
- Lender Accountability Rule (pending).*—HUD published a Proposed Lender Accountability Rule in January 2003, that would re-establish requirements previously published in 1994 Lender Select regulation, whereby lenders are held accountable for the quality of FHA appraisals. The proposed rule provides that lenders are held strictly accountable for the quality of appraisals on properties securing FHA insured mortgages; provides that lenders who submit appraisals to HUD that do not meet FHA requirements are subject to the imposition of sanctions by the HUD Mortgagee Review Board; applies to both sponsor lenders, who underwrite loans, and loan correspondent lenders, who originate loans on behalf of their sponsors; and will help protect the FHA Insurance Fund, ensure better compliance with appraisal standards, and help to ensure that homebuyers receive an accurate statement of appraised value. The Final Rule is scheduled for issuance in 2004.
- Appraiser Standard Rule.*—HUD published a Final Rule in May 2003 and an implementing mortgagee letter in June 2003, that establishes more stringent licensing and certification requirements for FHA Roster appraisers, based on industry-recognized Appraiser Qualifications Board (AQB) standards for education and experience; provides for a 12-month phase-in period for all appraisers currently on the FHA Appraiser Roster to meet the minimum licensing/certification criteria; does not permit “grandfathering” of appraisers who are currently on the FHA Appraiser Roster. All appraisers who previously qualified for State licensing, and placement on FHA’s Roster under reduced educational or experience requirements will have until June 2004 to meet the new, more stringent levels; clarifies FHA’s procedures for sanctioning and removing appraisers from the FHA Appraiser Roster.
- Appraiser Watch Initiative.*—In September 2003, FHA formally announced deployment of the Appraiser Watch tool, a monitoring tool that FHA now uses to identify appraisers for review. The system uses traditional risk-based factors to select appraisers for performance evaluation. Using Appraiser Watch, FHA has been able to conduct a relatively small number of field reviews that result in a much higher rate of removals of poorly performing appraisers from FHA’s Appraiser Roster.
- Enforcement Mechanisms and Tools.*
- Departmental Enforcement Center (Center), Office of General Counsel.*—The Center “works cooperatively with HUD’s program offices to assure compliance of business agreements and regulations.” Tools available to the Center particularly suited to predatory lending violators include suspension and debarment actions and pursuing Civil Money Penalties (CMPs) or double damages.

- Mortgagee Review Board (MRB)*.—The Board oversees the performance of lenders participating in FHA insurance programs and has the authority to withdraw approval to participate in the programs for serious violations. This includes violations related to predatory lending practices when the activity involves a HUD program. The MRB works closely with the Enforcement Center.
- Fair Housing Initiatives Program (FHIP)*.—FHIP supports important help from private fair housing organizations by funding enforcement and education and outreach activities carried out by private, non-profit fair housing organizations. Most recently, HUD competitively awarded a \$600,000 contract to carry out enforcement testing and education and outreach in geographic areas where sub-prime lenders and mortgage companies are suspected of engaging in predatory lending practices. The education component of the contract includes conducting seminars, housing counseling for buyers and renters, developing brochures and newsletters, and a range of other activities to inform and educate the public about lending discrimination and particularly predatory lending tactics.
- Public Education*.—HUD supports a wide variety of information sources and assistance available to the public.
- Internet*.—Recognizing that an increasingly large number of Americans use the Internet as a source of information, the Department uses this medium to communicate with the public about predatory lending. Web pages cover various subjects, including contact information.
- Training*.—Various offices and divisions provide training to the industry focusing on how to identify, avoid or self-protect against predatory lending.
- Local Information*.—HUD supports web pages special to each State providing local information for consumers in the State.
- Section 8 Tenants to Homeowners*.—HUD has issued guidance to State and local public housing authorities (PHA) to protect low-income families participating in the Section 8 homeownership program from abusive lending practices. With this guidance, PHAs are establishing policies to prevent program participants from agreeing to financing they cannot afford. PHAs are working with local lenders that have been educated about the voucher homeownership program to establish solid working relationships. Based on recommendations by a joint HUD-Treasury task force report in 2000 on predatory lending, HUD has issued guidance to PHAs on how to review lender qualifications and loan terms for any “predatory” features before issuing a down payment voucher.
- Intervention*.—The Department supports measures to intervene in the homebuying process in an effort to prevent predatory lending abuses and, where the opportunity is available as a result of legislation, to correct abuses.
- Homebuyer Counseling*.—The Department awards housing counseling grants to agencies all across the country. In fiscal year 2003, HUD made over 440 awards, totaling approximately \$38 million in grants, to nonprofit housing counseling organizations, including 17 awards to national or regional entities that represent another 400 or so affiliate housing counseling agencies. Of the \$38 million awarded, \$2.7 million was awarded specifically to combat predatory lending or to assist victims of predatory lending.
- Loss Mitigation*.—Is a process to avoid foreclosure. The lender tries to help a borrower who has been unable to make loan payments and is in danger of defaulting on his or her loan. The National Servicing Center (NSC) in HUD plays an important role on behalf of FHA borrowers by using its authority and influence as the mortgage insurer to encourage lenders of FHA loans to work with borrowers in difficulty in an attempt to preserve the loan and the home. NSC administers this program.
- Foreclosure Holds*.—Pending foreclosures on FHA insured loans may be held for predatory loan reviews. NSC has placed “holds” on 8,453 threatened foreclosures since August 2000, of which 380 were suspected predatory lending causes.
- Other New Measures*.
 - Office of Fair Housing and Equal Opportunity (FHEO) Organization Changes*.—FHEO is creating a Division dedicated to the education of consumers nationwide. The new Division will address a range of housing discrimination issues, with special attention given to minority communities and the dangers of predatory lending. It will also respond to this administration’s challenge to promote minority homeownership by helping to ensure that those minorities who are already homeowners stay in their homes.
 - Federal Interagency Task Force on Fair Lending*.—HUD participates on the Federal Interagency Task Force on Fair Lending, which is comprised of ten

agencies, including the Federal Reserve Board, and the Department of Justice. We have worked together to prepare and release a brochure titled, "Putting Your Home on the Loan Line is Risky Business." The brochure warns consumers about the potential pitfalls of borrowing money using their home as collateral. The brochure highlights the risks of high-cost home loans, and provides tips for getting the best financing possible.

QUESTIONS SUBMITTED BY SENATOR PETE V. DOMENICI

SAMARITAN HOUSING

Question. The Bush Administration's Samaritan initiative represents an important step forward in reorienting Federal homeless policy toward a focus on ending chronic homelessness. It is welcomed by many of us on this committee. As you know, it is Congress that initiated this policy when we first proposed a 30 percent minimum requirement on HUD within the McKinney-Vento program for the development of permanent housing targeted to people with disabilities experiencing chronic homelessness. How do you envision the Samaritan initiative building on what this subcommittee has already done with respect to focusing on chronic homelessness and permanent supportive housing under the McKinney Act?

Answer. Since 1987, the programs created by Congress under the McKinney-Vento Homeless Assistance Act have been a major source of Federal assistance to States, local governments, and nonprofits organizations for the purpose of developing and implementing permanent housing. The 30 percent permanent housing requirement contained each year in the appropriations law has served as an additional incentive for providers to develop permanent housing for homeless persons, including those who are chronically homeless. The Samaritan initiative would provide added focus and resources to current efforts. Samaritan would be the first Federal program dedicated to the chronically homeless population. Moreover, the program's unique design of having a joint collaboration between HUD, and the Departments of Health and Human Services (HHS) and Veterans Affairs, will demonstrate to communities that agencies, including those locally, can pool resources to effectively end chronic homelessness.

PERMANENT SUPPORTIVE HOUSING

Question. What else can Congress be doing to push the Department of Health and Human Services to fund services in permanent supportive housing where HUD support is diminishing?

Answer. The vast majority of funds administered by the Department of Health and Human Services (HHS) are in mandatory, entitlement programs that for the most part are administered by State agencies. HHS has indicated that currently States have sufficient flexibility to use these funds to address the needs of homeless persons. Given this and to help States focus their attention on this important issue, HHS initiated State Policy Academies. HUD joined HHS in this effort both financially and operationally. HHS, HUD and later other Federal agencies met with key stakeholders from each participating State to develop specific plans to access their mainstream resources for homeless persons. We are now assessing the results of that effort. To further increase access to HHS and other Federal agencies' mainstream programs, HUD and HHS jointly developed a CD-ROM. The interactive CD-ROM is designed for outreach workers and case managers to better assist homeless persons in accessing Medicaid, TANF and other mainstream programs. HUD is strongly encouraging providers to use HHS and other Federal mainstream service programs through the annual continuum of care competition. The continuum application provides points based on the extent to which communities help homeless persons access mainstream programs.

SHELTER PLUS CARE

Question. Is HUD committed to maintaining ongoing funding for Shelter Plus Care renewals in fiscal year 2005 and beyond to ensure that the goal of 150,000 units of permanent supportive housing is met over the next decade?

Answer. The law does not provide for a separate appropriation for Shelter Plus Care (S+C) renewals. Rather these renewals are funded through the Homeless Assistance Grants account, as are all other HUD homeless assistance programs. As provided for each year in appropriations language, HUD non-competitively awards S+C renewals that meet the standards set forth in the law. Remaining funds are used for the Emergency Shelter Grants (ESG) program and the national continuum of care competition for new S+C and Section 8 SRO projects, and new and renewal

Supportive Housing Program projects. This past year, approximately \$141 million of the 2003 appropriation was required for S+C renewals; \$150 million was awarded for ESG and approximately \$975 million remained available for the continuum of care competition.

The achievement of the bold goal to eliminate chronic homelessness will require a multiple of resources requested in HUD's budget including the McKinney-Vento programs, the Samaritan Housing Initiative, the Prisoner Re-Entry Initiative as well as resources provided through the HOME, CDBG, Public Housing and Section 8 programs. Continued support of growing renewal needs is clearly a major component of the overall strategy.

SUBCOMMITTEE RECESS

Senator BOND. We will do that, and look forward to working with you, and with the new Secretary.

Thanks very much. The hearing is recessed.

[Whereupon, at 11:30 a.m., Thursday, April 1, the subcommittee was recessed, to reconvene subject to the call of the Chair.]