TRANSPORTATION AND HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2009

THURSDAY, MARCH 13, 2008

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

The subcommittee met at 9:30 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Patty Murray (chairman) presiding.

Present: Senators Murray, Lautenberg, Bond, Specter, and Allard.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

OFFICE OF THE SECRETARY

STATEMENT OF HON. ALPHONSO JACKSON, SECRETARY

ACCOMPANIED BY:

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OPENING STATEMENT OF SENATOR PATTY MURRAY

Senator MURRAY. This subcommittee will get to order, and I want to thank the Secretary for coming a half-hour early and I apologize. We had votes early this morning, so we had to move up the time. I know Senator Bond will be here as well, so I'll go ahead and start my opening statement and we'll start moving in that order so we can get to some questions in a few minutes.

Today we are going to hear testimony from the Secretary of Housing and Urban Development, Alphonso Jackson. The principal mission of Secretary Jackson's agency is to address the housing needs of our most vulnerable citizens. My colleagues on this subcommittee and I take our responsibilities towards these citizens, as well as all taxpayers, very seriously. We believe it is our duty to protect and expand the opportunities for the neediest in our society, provide hope for people struggling to keep a roof over their heads, and redevelop blighted neighborhoods in partnership with our mayors and our Governors.

But in recent months the mortgage crisis has really tested HUD's ability to keep people in their homes and carry out its mission, and its performance has been totally inadequate. The mortgage crisis threatens the housing and credit markets throughout the economy. Millions of families are at risk for foreclosure. The administration has the responsibility to do everything in its power to prevent this crisis from spinning further out of control. Yet its solutions, such as the FHA Secure program and the HOPE Now Alliance, will help just a few hundred thousand borrowers at most.

Today, as I usually do, I reviewed in advance the formal testimony that Secretary Jackson submitted for this hearing. I have to say that I agree with some observations and I disagree with most of the rest. I agree wholeheartedly with the Secretary when he says that his 2009 budget request, quote, "is measured in more than dollars; it is measured in the lives we touch." But as I read the President's budget request for HUD, I'm very concerned because it doesn't touch nearly enough lives, and even while the number of people in need is growing quickly every day.

This budget proposes to cut Housing for the Elderly by more than a third and it proposes to cut Housing for Persons with Disabilities by almost the same amount. The President's budget proposes to completely eliminate funding for the HOPE VI program, which tears down the most decrepit public housing facilities and replaces them with modern, safe mixed income housing.

It proposes to cut the Public Housing Capital Fund by almost a fifth, which would reduce our efforts to keep public housing sanitary and safe for tenants. It proposes to slash Housing Counseling for distressed homeowners by 60 percent, even though there is an unprecedented demand for help. And its budget proposes to cut Community Development Block Grants by 18 percent, more than $650 million, at a time when the economic downturn is forcing our cities and towns to slash their own local budgets and slow down their own community investments.

The cuts to just these six programs total $1.6 billion. So yes, I agree with Secretary Jackson that we should measure this budget, as he says, by the lives we touch. But in the midst of a national housing crisis the effect of this budget will be to hurt those most in need, rather than to provide a helping hand to a more stable and secure future.

Secretary Jackson will tell us in his opening statement that his budget proposal reflects America's compassion and commitment. Well, I think the American people feel compassion and they are committed to helping needy senior citizens, disabled, and people at risk of losing their homes. But that's exactly what this budget does not do. This budget reflects a lack of compassion and commitment demonstrated by the Bush Administration and its misguided budget priorities.

Perhaps to me the most egregious statement in the Secretary's testimony is his observation that "The President has been a strong proponent of funding for housing counseling," and that's a quote. The reality is the President has fought our efforts to increase this funding every step of the way. Almost every observer of the mortgage foreclosure crisis in both the public and the private sectors has emphasized the urgent need to expand housing counseling re-

sources. At a time when the threat of foreclosure looms over the heads of literally millions of families, it is essential that we get the word out that they do have options. Too many families are ignoring their lender's calls. Too many families fear that nothing can be done, and too many families are left at home, hoping and praying that things will just work themselves out.

This committee recognized that problem last year, even while the Bush administration complained about our efforts and issued veto threats. The fact is this committee on a bipartisan basis had to fight the administration even to provide an additional $180 million to expand housing counseling through the NeighborWorks America. When the committee added this money, we got letters from OMB that threatened to veto our appropriations bill, and those veto threats specifically cited the counseling money as an example of excessive and unnecessary spending.

OMB Director Nussle told us that our expanded effort could, and I quote, "produce adverse consequences, including interfering with existing efforts by private and public entities to address mortgage foreclosures."

And the White House opposition has continued since then. Just a few weeks ago, our majority leader introduced an amendment to the stimulus bill that would boost our housing counseling resources by another $200 million.

Now, the reality is we are still not meeting the needs that are out there today. Even our historic funding increase last year will only reach 450,000 families when we know as many as 2 million families need this help. But what was the White House's response to Senator Reid's proposal? Another veto threat, saying it's excessive funding.

As I said earlier, the administration's 2009 budget request actually cuts total resources for Housing Counseling by more than 60 percent in the coming year. So I don't see how anyone can say the President has supported that effort. And this, as I said, is not just a partisan fight. In the last 7 years, this subcommittee has consistently had to rewrite the HUD budget to ensure that critical programs serving our citizens and communities are not slashed or dismantled. That's been true under the leadership of Senator Bond and of myself. And it is an example of the administration's lack of dedication to helping low-income and working families and its failure to invest in our communities.

Now, an equally important responsibility of this subcommittee is to keep an eye on how our tax dollars are being spent, so I want to turn to that. Earlier I said I agreed with Secretary Jackson that his budget should be measured in the lives it touches. Unfortunately, allegations have surfaced recently that HUD funds have in fact touched the lives of some of Secretary Jackson's personal friends. We have read the allegations of cronyism by Secretary Jackson. We have read allegations that he inappropriately interfered in hiring and contracting, and we have read allegations that he tried to dictate the spending decisions of public housing authorities to benefit his acquaintances.

I know Secretary Jackson has grown tired of reading those allegations questioning his character. I've grown tired of reading them,

too. I believe they've taken a real toll on the morale of HUD employees and the credibility of HUD's leadership.

Many of these allegations are currently being investigated by the HUD Inspector General and the Department of Justice. I want to point out that Secretary Jackson has been charged with absolutely nothing. Our system of governance and justice presumes innocence and Secretary Jackson is owed that presumption.

That said, as part of this hearing I do intend to ask Secretary Jackson some direct questions regarding his conduct as Secretary, how he has administered funds provided by the subcommittee, and how he has interacted with other HUD staff whose salaries are paid for by this subcommittee. I expect the Secretary to provide direct answers. Our oversight responsibilities require no less and I appreciate the Secretary's cooperation.

With that, I will turn to Senator Allard for his opening comments.

STATEMENT OF SENATOR WAYNE ALLARD

Senator ALLARD. Madam Chairman, I want to thank you and Ranking Member Bond for providing a hearing to hear the fiscal year 2009 budget of the Department of Housing and Urban Development. I would also like to welcome Secretary Jackson to the subcommittee. Secretary Jackson, we appreciate you making time in your busy schedule to be here, especially since this is your second morning in a row testifying before the Senate.

HUD has a long history of problems. For years it was the only Cabinet-level agency on GAO's high risk list. However, I want to take this opportunity to publicly commend Secretary Jackson and now Secretary Martinez, who was there before him, for his progress on this point. Last year the remaining HUD programs were removed from GAO's high risk list. This is a tremendous accomplishment and represents a great deal of work, and I would encourage Secretary Jackson, all the dedicated staff at HUD to remain focused on maintaining the positive direction.

Certainly one of the biggest challenges HUD faces is the tight fiscal scenario. This is a constraint shared by nearly all agencies. No one denies that the budget for HUD or any other agency, for that matter, is insufficient to meet every single perceived need in this country. Increasingly, the definition of a need seems to be a bottomless well. I believe, though, that this budget strikes a reasonable balance at meeting the most pressing needs while still being responsible.

I support the administration's decision to pursue fiscal responsibility for these times. It would be irresponsible to continue to overspend and leave a mounting debt for future generations.

It is easy to look at the proposed HUD budget and complain that it lacks money. Certainly needs are great and in a perfect world we would have the money to meet all needs. However, the administration has had to make some very difficult choices, and the choices at HUD were, I'm sure, no exception in their difficulty. The budget is evidence of these difficult choices and I commend the administration for facing reality and not simply taking the easy way out.

I want to reiterate a position that I have put forward at previous meetings, but I believe bears repeating: HUD's success as an agen-

cy is not defined by a budget number. More money does not necessarily mean more people are served or that people are served any better. This would seem to be especially true when reviewing the effectiveness of HUD's programs as determined by the PART analysis. Forty-five percent of HUD's funds are spent on programs we either know are failing to produce results or we have no way to tell whether they are producing any results.

Why do we talk at such length about the dollars going to HUD, but fail to look at what is coming out the other side? I for one intend to keep looking at both sides of the equation.

I appreciate the opportunity to do this, to do so at this hearing. Mr. Secretary, your testimony will be helpful to this subcommittee and it will be helpful as we begin the appropriation process.

Thank you, and thank you, Madam Chairman.

Senator MURRAY. Senator Lautenberg?

STATEMENT OF SENATOR FRANK R. LAUTENBERG

Senator LAUTENBERG. Thank you, Madam Chairman, for holding this hearing. We welcome Secretary Jackson here. We have to ask questions about why it is, when one of the most difficult things for young people growing up and ultimately winding up often in difficult situations out on our streets, while we spend over $3 billion each and every week on the war in Iraq and supplementals to support that in addition to that, and we turn our backs on the housing needs for people who lack the income to get themselves into normal routine housing.

So these are tough times for families struggling to keep their homes now. Thousands of families may lose their homes because they were sold risky subprime mortgages. And instead of realizing the American dream, more than 35,000 households in New Jersey may have their homes taken away.

That's why I co-sponsored the Foreclosure Prevention Act to help homeowners refinance their loans and to be able to afford their payments and keep in their homes. Our bill would also provide an additional $4 billion in community development block grants, known as CDBG, for local governments to purchase foreclosed properties and to renovate them to improve neighborhoods. CDBG invested more than $98 million into New Jersey's neighborhoods last year, creating vibrant and safe communities, new homes and shops, new jobs, and more opportunities, and a better atmosphere totally.

But while we were trying to do our part in the Congress, the American people are not getting enough help from the other side of Pennsylvania Avenue, where the housing for President Bush is more than adequate. Despite the acknowledged success, President Bush wants to cut funding for CDBG by nearly $1 billion, and he also wants to cut funding for public housing. New Jersey has more than 38,000 public housing units and the average income of those residents is $12,000 a year, $250 a week. How can you afford decent housing with that? You've got to have help from our Government. Without these public housing units, these men, women, and children would literally be out on the streets.

We're spending billions and billions, almost into the trillions, on housing and restructuring Baghdad and other cities in Iraq, and

yet we're willing to turn loose young people on the streets who are so demoralized by the places they're forced to live in. And yet the President's budget request is nearly $900 million short of what our housing authorities need to patch leaky roofs, fix heating systems, and to make other repairs to their residents' homes.

Finally, Madam Chairman, the President's budget falls short when it comes to the section 8 program, a program that's worked very well over the years. Section 8 is the Federal Government's most important program for low-income families trying to find decent and safe homes in the private market by making up the difference between what the resident can afford to pay and the actual rent.

Once again, the President's budget is more than $1 billion less than what America's families need to succeed in their goals for life. In New Jersey alone, these cuts would cost 3,000 people their housing assistance and possibly their homes. Every child, every individual, and every family deserves a safe and affordable place to call home, and if the President wants to see America's homeowners and public housing residents through these tough economic times, his budget doesn't reflect that interest.

I look forward to working with this committee to make sure our public housing residents, the section 8 program, and our housing authorities get the resources they need to succeed. Mr. Secretary, I hope that you'll communicate your concerns for public housing, for affordable housing, to the White House and to the President and let them know that this is something that must be done to help keep stability and reasonable fairness in our society.

So we welcome you here, Mr. Secretary. But there are a lot of questions that are going to have to be answered.

Thank you.

Senator MURRAY. Thank you, Senator.

Senator Specter, do you have an opening statement?

STATEMENT OF SENATOR ARLEN SPECTER

Senator SPECTER. Yes. Thank you, Madam Chairman.

I join the subcommittee in welcoming Secretary Jackson here today. He has a job of enormous importance, housing and urban development, which has a very, very heavy impact on my city. Public housing is a matter of the utmost importance as it seeks to provide decent accommodations for people, a very important factor, providing a home, providing a basis for family, for school.

We have a very high crime rate in Pennsylvania, especially in Philadelphia, and adequate and affordable housing is very important. Beyond the overall concern I have for the housing issues, there has been a matter that's very contentious between the Department of Housing and Urban Development and the Philadelphia Housing Authority, something that the Secretary and I have discussed personally. There is an issue which could cost Philadelphia $50 million at the end of this month unless it is resolved.

Senator Casey and I undertook to try to mediate the dispute, spent a little more than an hour on November 1, in my office, a very rancorous, cantankerous, bitter meeting, which perplexed me. And I asked the parties to go get it worked out, but if they didn't I would try again.

On December 11, I sat down with them again for an hour, and there have been some very sharp accusations in that matter, which I hope we do not have to go into. What I want to do is I want to see the matter resolved. There is litigation now. It's costing the United States Government a lot of money to hire a lot of expensive lawyers, and taking up the time of the United States District Court for the Eastern District of Pennsylvania. And we're all on the same team.

I was very much concerned to read in the Washington Post yesterday some e-mails which pertain to this matter between two of the Assistant Secretaries of HUD. This is what they said, "Would you like me to make his life less happy?"—I think referring to Carl Greene, the head of the Philadelphia Housing Authority. "If so, how?", Orlando J. Cabrera, then Assistant Secretary at the U.S. Department of Housing and Urban Development, wrote about Philadelphia Housing Director Carl Greene. Kim Kendrick, an Assistant Secretary who oversaw accessible housing responded, "Take away all his Federal dollars." She typed symbols for a smiley face at the end of her January 2, 2007 note. Cabrera then wrote back a few minutes later, "Let me look into that possibility."

The Philadelphia Housing Authority Director Greene says that this is in retaliation for his refusal to comply with a request, or really a demand, made by the Secretary, and there are alleged calls from the mayor.

I hope we don't have to get into the details of it, and I hope we're able to get it worked out. But I have some important questions. I noticed in your statement, Mr. Secretary, that you will only take written questions. Well, that's not satisfactory. This is a subcommittee of the United States Senate, charged with putting up billions of dollars for your Department, and there are some very important questions that have to be answered. And I say that in a context that I don't like. You and I have worked very closely together, and when I wrote to you yesterday I scratched off "Mr. Secretary" and put "Al" and signed it "Arlen" because you and I have an Al and Arlen relationship.

But when $50 million is at stake and the kind of allegations that are involved here, I hope we don't have to get to the bottom of it. What I hope is we can settle it.

Thank you, Madam Chairman.

Senator MURRAY. Senator Bond, I apologize for starting ahead of time with the votes going on. Do you want to make your opening statement?

OPENING STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. I might as well, and begin by apologizing to you, my colleagues, the Secretary, and those here. This morning a wreck on North Capitol of a school bus put me about 45 minutes behind. So this is the day when I could least afford to be 45 minutes behind, but I appreciate your going ahead, and again my sincere apologies.

I thank you, Madam Chairman, for having this hearing. I believe Senator Murray has already noted this is likely the last time we will have the pleasure of receiving testimony from Al Jackson, the Secretary of HUD. I would say also, the Secretary's a good friend.

We worked together in previous transmogrifications and I hope that he will be able to provide closure for a number of HUD programs, most especially public housing reform, lead-based paint, as well as providing demonstrated leadership on the subprime mortgage crisis.

These are no small challenges that have to be resolved. Nevertheless, I hope that this hearing will assist us in crafting an appropriations bill that will assist in meeting at a minimum the housing and community development needs of the Nation.

HUD continues to face a slew of funding and programmatic issues which are not likely to be resolved for a number of years into the future. This statement is not intended to detract from any accomplishments of the Secretary, but it is an honest assessment of HUD as it continues to have problems, many of which are long-term and, to be quite frank, require a lot more funding than the administration is willing to commit.

Unfortunately, many of HUD's programs are part of a safety net to assist many low- and very low-income families with greatest needs, including seniors and persons with disabilities. In many cases these are persons who are unable to help themselves, through no fault of their own. These are the people we all want to help.

Unfortunately, HUD's problems are not just a question of inadequate funding. I believe strongly that HUD does not have adequate staffing or expertise to ensure that its programs can work effectively. This coupled with the risk of many impending retirements from the senior ranks also means that HUD will have difficulty conducting the necessary oversight to prevent fraud, abuse, and negligence in its programs.

On top of these problems, HUD has admitted that its IT systems are antiquated, underfunded, flat-out do not work as expected. That's a real hat trick, and that is a serious problem, which not only compounds HUD's program failures, but it further enhances the risk of fraud, abuse, and loss of program income.

Nevertheless, I congratulate Senator Murray for her aggressive efforts to ensure that the final fiscal year 2008 appropriations bill included language that provides a separate appropriation for each of HUD's primary offices. Frankly, I think that was an excellent move. With HUD's assistance and this information, our subcommittee should be able to make constructive funding decisions on staffing requirements once we understand which offices are overfunded and which are underfunded. The bottom line is that we need to help ensure that HUD staff is allocated to the office with the most needs, where they can provide the best expertise.

I also expect HUD to make personnel recommendations for HUD offices consistent with staffing needs within the next 2 months to the House and Senate Committee on Appropriations.

For another year, I must express extreme disappointment with the proposed administration HUD budget for fiscal year 2009. For example, the administration has increased overall funding by some $600 million in fiscal year 2009, with an advanced appropriation of $400 million, for 2010 project-based assistance. Unfortunately, HUD has been short-changing its long-term rental contracts to preserve and pay existing section 8 project-based needs and now we

find ourselves in a $2.4 billion hole. That's unacceptable. HUD's approach is to fund 2009 needs through bits and pieces despite a legal obligation to fund fully all housing for the entire term of the contract, many of which begin in 2009, but stretch into 2010.

Not only is this approach of dubious legality, but it creates a financial burden of $2.4 billion from 2009 into 2010 without any clear way to pay for the obligation without short-funding other important programs or possible shortfalls in long-term contracts.

Public housing has its concerns, but I'm pleased that the Public Housing Operating Fund received an increase. I assume these funds will operate to assist PHAs in meeting their asset-based management requirements. More funds are needed, but this is a start. Nevertheless, cutting the Public Housing Capital Fund by some $400 million is counterproductive, especially since public housing will only result in higher costs later by failing to address deteriorating needs, which will only get worse.

The administration wrong-headedly continues to request the elimination of HOPE VI. While I would support certain reforms to expedite demolition and streamline construction with HOPE VI, I do support HOPE VI, which has transformed communities throughout the Nation, building mixed housing that has leveraged new investments, economic development, stable communities, from which hospitals, schools, and jobs have grown, often resulting in an increase in the tax base and a reduction in crime.

I know, Mr. Secretary, you're quite familiar with Murphy Park and the King Louis Developments in St. Louis, which took some of the most uninhabitable, dangerous high rises and converted them into mixed use viable communities with decent housing on a mixed income basis.

I think we should look at HUD through a gestalt process whereby we take public housing as a whole, with a goal to fix all PHA problems as a totality, and we're going to have to do that regardless of costs.

Even more drastic, section 811 housing for persons with disabilities would be gutted, from $237 million in fiscal year 2008 to a meager $65 million under the 2009 budget request. These are people who rely on this program and in many cases this housing represents the primary focus around which services and related programs are provided.

Equally serious, the administration seeks significant reductions to the section 202 elderly housing program. In the section 202 program, the administration proposes a cut of $195 million from a 2008 funding level of $730 million. People are getting older. Our population's getting older. The demand and the need for this housing are growing, not contracting.

For the sake of time, I will highlight only several other important issues and leave other issues for later resolution. But in particular, HUD's FHA Single Family Mortgage Insurance program has always been a concern of mine, especially since homeownership appears to be a bigger priority to the administration than affordability and foreclosure. To some extent, I will tell you quite frankly I think the emphasis on homeownership helped to drive the foreclosure crisis we're now in. We were warned about it. Zero down payments, all these wonderful ideas to give people who couldn't af-

ford housing the opportunity to get into the housing didn't do them any good when we put them in housing they couldn't afford, no matter how many gimmicks up front, whether it was seller financed Nehemiah or no down payments provisions.

I think we all need to recognize that homeownership is a great goal, but it's not achievable for everyone. Rental housing has its place and in many cases it's more affordable and realistic for people and families in this country. I've lived in rental housing and there is nothing wrong with that if you are not in the position to buy a house and ruin your credit when you can't make the payments.

In addition, I emphasize an agreement I have with FHA. Namely, FHA is not intended to bail out either homeowners or lenders regardless of negligence, predatory lending, or whatever. In other words, FHA is not permitted to refinance mortgages at mortgage costs that are above the current value of the property. FHA could obviously refinance mortgages at the actual appraised value and I would urge FHA to do so.

My real concern here is the appraisal system is flawed and to some extent to blame for the housing crisis we're now facing. It's certainly a worthwhile discussion that may result in the need for legislation or State action. I'd be very interested to see how FHA plans to deal with appraisals.

In particular, FHA needs to report quarterly to the House and Senate Committees on Appropriations on appraisal reforms. I do expect people guilty of fraud to be barred from the appraisal program, perhaps even including fines and jail sentences.

If we do not see action and FHA losses actually increase, it might be time for a new FHA corporation or a new housing GSE. If that sounds harsh, just talk with families who've lost their homes.

One of the major problems facing HUD and FHA is seller down payments. In general, this is where seller-funded nonprofits provide down payment assistance to families in order to qualify for FHA mortgage insurance. Unfortunately, this practice, while it's done well for the sellers, allowing them to sell the property, but if it results in inflated real estate prices and the risk of default then the FHA winds up holding the bag.

In fact, the costs to the FHA have been dramatic. From 2000 to 2004, these loans as a percentage of FHA's business grew from 6 to 30 percent, with approximately a 35 percent default rate. In fact, without some change in the law or HUD practice, seller down payments will cost as much as $1.4 billion in appropriations to pay for losses in 2009. Unfortunately, courts have not been receptive to HUD's attempt to ban the practice, justifying the most recent decision on procedural grounds.

Finally, there is a local issue where three relevant Federal agencies are required to meet the basic requirements of legislation that identifies and makes unutilized and underutilized public lands available on preference to homeless providers. HUD conducts the initial analysis; Health and Human Services provides the application with a preference to any homeless provider. The biggest problem in Missouri is a certain homeless provider who repeatedly appears to have gotten priority for HUD excess properties. The provider has no relation to any other homeless provider in Missouri, never participated in the Federal homeless funding or local con-

tinuum of care. There has never been any comprehensive attempt to administer these facilities in a professional manner.

Among the troubling issues, there have been reports of rapes committed by employees, theft, as well as a recent knife and chain saw attack by a psychiatric patient. Equally troubling, the Springfield facility is near a school, which clearly poses some risk to the students.

Unfortunately, the Government appears unable to implement its responsibilities as to excess properties for the homeless. I know any major change would cause concern. My suggestion and compromise is not to eliminate the program, but to tie the program, this program, to homeless participants and the Federal continuum of care to ensure the excess property will be used effectively and appropriately.

I initially supported the law because of the past bias against housing the homeless in almost any community. Nevertheless, not all Federal properties are appropriate. We almost ended up with a homeless shelter in St. Louis that was an obsolete Social Security building in the downtown district, which was going through revitalization, and if they made that the largest homeless shelter in the Nation it would have doomed the revitalization efforts of downtown St. Louis. That's only one example of property decisions made under a poorly administered law.

Madam Chairman, I apologize for the length of my statement, but, as you may have noted, I have a lot of concerns dealing with HUD. I thank you and my colleagues and the Secretary for the indulgence.

Senator MURRAY. Thank you very much, Senator.

Secretary Jackson, if you will give your opening statement.

STATEMENT OF HON. ALPHONSO JACKSON

Secretary JACKSON. Thank you very much, Chairwoman Murray. And I want to thank Ranking Member Bond and the members of the committee for the opportunity to appear before you today.

Madam Chairman, I am here to present the fiscal year 2009 HUD budget. But before I do that, I want to thank you, Madam Chairman and the entire subcommittee, for priority given to FHA Modernization. We need the legislation right away. As you and your colleagues finish work on this important legislation, I should mention the administration's remaining priorities with respect to what's in the final bill.

First, the legislation must allow HUD to address the recent explosion in loans where the seller provided buyers with down payment assistance and then add the price into the home. These loans have a foreclosure rate three times the norm. They are costing hard-working Americans their homes, and these types of loans have pushed FHA to the brink of insolvency.

Second, Congress should allow FHA to proceed later this year with some flexibility in setting premiums. I assure you we have no intentions of increasing premiums on our bread and butter customers, but a few modest changes will strengthen FHA's ability to offer safe alternates to home owners who want to refinance out of high-cost subprime loans and will actually allow us to reduce the premium for our potential home owners with low income.

Such legislation would fit well into the general direction of the President's budget. We need actions that are positive, solutions to complex problems that confront home owners in the housing market, like FHA modernization and the Government-sponsored enterprises.

The proposed budget is fiscally sound, representing a historical investment of $38.5 billion for programs at HUD. This is an increase of more than $3 billion, or 9 percent over last year's budget. The budget is almost $1 billion more than our current budget authority. This funding will be timely and on target for people served by this Department. We need this budget to maintain the current home ownership and to stimulate new purchases. It will help us expand our current effort.

Let me put the budget in context. Last year President Bush and I introduced FHA Secure to help more Americans facing foreclosure refinance into safer, more secure FHA loans. We did this using the current regulatory authority. As we have been able to make the FHA available to more qualified families, there has been a noticeable increase in the number of closings. We believe that FHA Secure will help about 300,000 families refinance into affordable FHA-insured mortgages. FHA Secure has proved to be extremely valuable.

Madam Chairman, you should also know that only in 5 months, from September 2007 through January 2008, FHA has pumped more than $37.5 billion of much-needed mortgage activities into the housing market. More than $14.7 billion of that investment came from FHA Secure.

FHA modernization would greatly assist our effort. As you know, the economic stimulus package provided a temporary 10-month window. We announced the new loan limits last week when I was in California. This will help hundreds of thousands of people nationwide, perhaps as many as 250,000. But this is no substitute for the FHA modernization, which would raise appropriate loan limits permanently and also provide other important changes that would benefit American home owners.

At a time of high foreclosure, FHA is helpful in other ways, such as a strong loan loss mitigation program which has saved hundreds of thousands of homes from going into foreclosure.

In addition to FHA-related actions, we are also taking steps to ensure it is easy for home owners to understand the fine print when they do sign on the dotted line. That's why we are committed to RESPA reform. We're in the process of publishing a new Real Estate Settlement Procedure Act rule and hope it will bring much-needed transparency to the home buying process.

Now, the budget will work in concert with other actions that we must take. For instance, the proposed budget appropriately increases funding for housing counseling. America needs the present request for $65 million in the budget for housing counseling. Those funds, in addition to the $180 million provided to NeighborWorks, will serve our constituents very well.

Many Americans are facing foreclosure. We know that we can stop these foreclosures and housing counseling works very well. This funding will help partially address the crisis and prevent such a situation in the future. It will get the job done. We want to make

sure that housing counseling services get the funds they need, now and in the future, and can manage the funds they get.

We also need to continue Government efforts to partner with the private sector to help build back the housing market. The Hope Now allowance is a good example. Hope Now is a private sector voluntary industry effort to address foreclosure through freezing mortgage interest rates and working directly with financially troubled home owners.

I also commend a recent effort by six Hope Now Alliance members to provide a temporary pause for home owners in the foreclosure process. These actions provide direct assistance to those in need right now. These are the sort of responses that provide quick help for home owners.

As in the past, Madam Chairman, the largest part of our budget is for affordable rental housing. Combined, this budget seeks more than $29 billion for the rental assistance program, which is expected to help more than 4.8 million households. We are mindful of the continuing need for more affordable rental housing. Especially low- and middle-income workers still find themselves priced out of the real estate market. We need to maintain the units currently available and expand their numbers. This budget will help us do that.

Finally, the homeless must not be forgotten. We are making strides to cut the number of chronic homeless within our continuum of care approach. For the first time ever, we saw a decrease in the number of chronic homeless last year, a drop of 12 percent. We must continue that process. Our budget once again seeks an increase for homeless programs to continue this good work.

PREPARED STATEMENT

Madam Chairman, I know that you are mindful of the need to help our Nation's homeless veterans. Americans are deeply, profoundly grateful for the service and sacrifice of our Nation's veterans. In this proposed budget there is a request for $75 million for our Veterans Affairs supportive housing program. Prior to 2008, this program has not been funded since 1993. Working with the Veterans Administration, we will create an additional 9,800 vouchers for fiscal year 2009. This will bring the total of approximately 20,000 homeless veterans to be able to be served through social service and housing.

Overall, I believe that this is a good budget and I look forward to working with you to carry out this. Thank you very much.

[The statement follows:]

PREPARED STATEMENT OF HON. ALPHONSO JACKSON

INTRODUCTION

Thank you, Chairwoman Murray, Ranking Member Bond, and the members of the subcommittee for this opportunity to appear today.

Madam Chairwoman, the budget for the Department of Housing and Urban Development (HUD) represents an investment in the American people by the American people. This investment is measured in more than dollars. It is measured in the lives we touch, whether in creating and protecting sustainable homeownership, preserving affordable rental housing, helping the homeless, or revitalizing our cities.

The budget reflects America's compassion and commitment. The President's budget will ensure housing assistance for those in need, preserve and promote home-

ownership by addressing subprime mortgages, strengthen communities by sustaining homeownership gains, make further progress towards ending chronic homelessness, and continue the trend of improving HUD's management and performance.

Almost every American is touched by our programs, directly or indirectly. And there are few things more personal or cherished as the house or apartment where we live, watch our children grow up, and where we grow old. Our budget is about promoting new homeownership and making the American dream possible. The budget is about protecting families already in homes. It is about expanding affordable rental housing. It extends funding and services to those in need, including the disabled, veterans, the homeless, people with HIV/AIDS, and elderly and disabled people affected by hurricanes Katrina and Rita. Further, it continues to support and encourage community growth and revitalization.

I believe we have a good budget. It is fiscally sound, supports our mission, and fits in well with the overall vision for the President's entire fiscal year request. My Department would receive an historic investment, $38.5 billion. This is an increase of more than $3 billion, or 9 percent, over last year's proposal. The budget is almost $1 billion more than our current budget authority.

Let me break this down in more detail.

ENSURING HOUSING ASSISTANCE

I am pleased that the budget strongly ensures housing assistance for those in need. As in the past, the largest part of our budget is for affordable rental housing. Combined, this budget seeks more than $29 billion for our rental assistance programs which we expect will help more than 4.8 million households. We are mindful of the continued need for more affordable rental housing, especially as some low-and-middle-income workers find themselves priced out of the real estate market in many cities. We need to maintain the units currently available and this budget will help us do that.

The budget increases primary housing programs by providing $7 billion to renew all project-based rental contracts and $400 million for an advance appropriation to bridge renewal funding into 2010. This will help provide housing assistance for nearly 1.3 million low-income tenants.

We also increase housing choice vouchers, reaching over 2 million low-income families, while removing the cap on the number of housing units that Public Housing Authorities may assist.

The budget also supports public housing operations with a request for $4.3 billion, the highest proposed funding level in history. This will cover the necessary operating expenses for 1.2 million public housing units.

The proposed budget also seeks $300 million for persons living with HIV/AIDS. This funding would provide housing and care for 70,500 people.

The proposed budget also contains $3 billion in Community Development Block Grant (CDBG) funding for States and local governments. We have once again asked Congress to revise the outdated funding formula for this program. With appropriate revisions, we can distribute resources more efficiently and fairly, making this funding more effective and helpful.

Madam Chairwoman, let me also add some comments about the recovery effort from Hurricanes Katrina, Rita, and Wilma. The disaster was unprecedented. Recovery will take many years. We have been deeply involved in these recovery efforts.

You should know that HUD has funds available of nearly $20 billion throughout the gulf coast region to assist in recovery. States have spent approximately $8.5 billion to date. So far, more than 110,000 homeowners in Louisiana and Mississippi have received financial assistance from HUD. We know that there is more to do—much more. We have learned much and worked through some enormous difficulties. But progress is noticeable.

The American people should be proud of their investment and their compassion. If anyone wants to see America's heart, they should go to the gulf coast, where so many people have given generously of their time, their love, their patience, and their courage.

The gulf coast is coming back, and one important reason is a fundamentally sound approach to recovery.

When Hurricanes Katrina, Rita, and Wilma devastated the gulf coast, many of our most vulnerable citizens lost the only homes they had known. We recognized last year that some of those families affected by the storm needed additional time to recover, which is why the administration transferred the responsibility for housing these families from Federal Emergency Management Agency (FEMA) to HUD under the Disaster Housing Assistance Program (DHAP) and extended Government housing assistance another 18 months to 30,000 families.

The President is also requesting $39 million to ensure that the elderly and disabled families displaced by the 2005 gulf coast hurricanes remain protected at the conclusion of DHAP. These Disaster Displacement Assistance vouchers will provide permanent affordable housing to eligible elderly and disabled families, while the remaining storm victims who are not on fixed incomes continue on the path to self-sufficiency.

The Department will administer these vouchers as part of the section 8 Housing Choice Voucher Program. We will make rental assistance payments on behalf of these families, whether they have relocated or returned home.

PRESERVING AND PROMOTING HOMEOWNERSHIP

Promoting homeownership remains one of the central goals of this administration. We have to get the housing market back on track. We know that homeownership is good for families, the community, the Nation, and the world. Homeownership equals empowerment, wealth creation, independence, and fulfillment of the American Dream. It gives the family a stake in the community. Homeownership is a source of pride. It is particularly important for America's minority communities, which historically have lower rates of homeownership.

Clearly, the housing crisis is a powerful challenge. After the unprecedented, historic gains in homeownership between the start of the decade and 2005, there has been a downward trend in homeownership. The troubling rates of foreclosure and other housing indices reveal more than a statistical drop or figurative decline. They tell us of families losing their homes, of people losing their investments, and of dreams stolen away.

The causes are many. But the subprime situation is often the reason. But not all subprime loans are bad. Subprime loans broadened the availability of credit and led to housing investment for those who previously had less than perfect credit. And the majority of subprime loans are still being paid on time. About 20 percent of subprime loans are problematic. This means that many families cannot afford their subprime loans. Some families are on the edge of a financial abyss. The rapid rate of foreclosure threatens to continue unless appropriate actions are taken.

This budget will help HUD in its efforts to address the housing crisis. It will give us the tools we need to continue our work. We must reverse the downward trend in housing indices and homeownership. We must help homeowners retain their homes. We must also look to the future because we must increase the number of families who own their own homes. And we must retain the sizable increase in minority homeownership. As you may recall, in 2002, the President challenged the Nation to create 5.5 million new minority homeowners by the end of this decade. And we have made substantial progress: 3 million more minority families have become homeowners since 2002. We must build on that progress.

Of course, the President's stimulus package will help. I'm grateful Congress has given this package its support. By temporarily increasing FHA loan limits, we can back more safe, sound mortgages in high-cost States and help homeowners trapped in exotic subprime loans to hold on to their houses.

We also need the President's request for $65 million in this budget for housing counseling. Why? Well, we have learned that housing counseling makes a powerful difference in homeownership and foreclosure avoidance. You see, many of the failed loans were a surprise because the homeowner didn't read the fine print and didn't understand the contract. Housing counselors could have helped the homeowner gain a better perspective about affordability and balanced expectations. Families must buy homes they can afford. They must understand the contracts—have an especially clear idea of the features of financing and the ramifications of resets, and the terms and the timelines. Prospective homeowners must have a prudent mortgage, not a "suicide loan." We must remove the mystery, confusion, and vagueness from the process. There must be full disclosure, understandable information, and a transparent process.

That's why we need housing counselors to be fully engaged in the process. Housing counselors are an important line of defense against foreclosure. They can enlighten homeowners and help prospective owners determine the affordability and appropriateness of a mortgage. They can explain the contract and answer questions.

The President has been a strong proponent of funding for housing counseling, and has worked with you to more than double the funding for housing counselors since the start of this administration. Now, given the magnitude of the crisis we face, it is important to expand funding for housing counseling. The President's request in this area is paramount to prevent future foreclosures.

These funds, in addition to the President's request of $180 million for the Neighborhood Reinvestment Corporation, provide great services to those in need. And we

now know that spending in this area is a sound investment, saving the Nation from expenses related to foreclosures, lost revenues, slowdowns in business spending and new housing construction, and declining home values.

The administration is also taking steps to ensure it isn't as hard for homeowners to read the fine print when they do sign on the dotted line. That's why we are committed to reform of the Real Estate Settlement Procedures Act (RESPA). We hope to publish a new RESPA rule in the coming days. Our goal is to bring much needed transparency to the home-buying process.

STRENGTHENING COMMUNITIES BY SUSTAINING HOMEOWNERSHIP GAINS

The President has also requested a substantial increase of $263 million for our HOME program. This would bring the funding level up to nearly $2 billion for the Nation's largest block grant program specifically designed to produce affordable housing. This request includes $50 million for the American Dream Downpayment Initiative, which provides flexible housing assistance, and increases affordable housing and minority homeownership. Since the inception of the HOME program 16 years ago, almost 812,000 units of affordable housing have been created.

We also need to support other efforts to maintain current homeownership and stimulate new purchases. In August 2007, the President and I introduced an effort, FHASecure, to help more Americans facing foreclosure refinance into a safer, more secure Federal Housing Administration (FHA) loan. We did this using current regulatory and I am pleased to report that the program is helping many families avoid foreclosure. There has been a noticeable increase in the number of closings with FHA. Two months ago, there were 2,500 closings a month with FHA. Now, there are 4,500 closings a week! By year's end, we expect FHA will be able to help more than 300,000 families refinance into affordable FHA-insured mortgages.

Madam Chairwoman, you should also know that FHA has mailed letters to hundreds of thousands of at-risk homeowners to urge them to refinance with safer, more affordable FHA-backed mortgages. These letters are being sent to homeowners who already have or soon will confront the first reset of their adjustable rate mortgage, and are currently living in locations subject to FHA loan limits. We will be sending these letters out to about 850,000 at-risk homeowners.

But we could do so much more with legislation to modernize the FHA. Congress needs to quickly complete work on a bill that will immediately give us authority to expand FHA's ability to serve the very type of borrowers who were lured into high-cost, high-risk loans. We need to make the minimum down payment more flexible, create a fairer insurance premium structure, and permanently increase FHA's loan limits. This will allow more families to use FHA, perhaps hundreds of thousands of families. We need FHA modernization as soon as possible. Every day of delay places qualifying homeowners at unnecessary risk. Our estimates indicate that FHA modernization could help as many as 250,000 more families by the end of 2008.

We asked for this bill 2 years ago to help us avoid the mortgage crisis. But now we need it to help address the crisis.

I am also pleased that the mortgage industry has stepped forward to help. Treasury Secretary Paulson and I have worked closely with the mortgage industry to address the housing crisis in another way: enlist proactive industry cooperation. The industry worked with the administration to develop a program called the HOPE NOW Alliance to help homeowners at risk of foreclosure. The Alliance has implemented a plan that could help up to 1.2 million homeowners avoid foreclosure over the next 2 years by providing systematic relief that includes modifying or refinancing existing loans, moving borrowers into FHASecure loans, and implementing a 5-year freeze on interest rate resets for subprime loans. The industry has already assisted 370,000 homeowners. HOPE NOW has contacted more than half a million borrowers in the second half of 2007.

There are other actions that will help. So, you'll see the budget has a sharp increase for our Self-Help Homeownership Opportunity Program (SHOP) that works with organizations like Habitat for Humanity and others to build housing through sweat equity.

Fair housing practices are an important aspect of homeownership. This year marks the 40th anniversary of passage of the Fair Housing Act. Our budget provides $51 million to protect the right of all Americans to be free from housing discrimination based on race, religion, gender, sexual orientation, family status, or disability. This is an increase of $1 million over the current appropriated level.

I also hope you will notice our new Fair Lending Division. This office will examine questionable mortgage practices and investment complaints from homebuyers. It is an important addition—a new way to directly address unfair practices.

This new division has already made an impact. Recently, HUD awarded grants totaling approximately $1 million for the development of strategies to address lending discrimination. These grants were awarded to State agencies in Ohio, Massachusetts, Colorado, and Pennsylvania, States with some of the highest rates of foreclosure in the Nation. The agencies in these four States are developing "best practices" for intake procedures, investigation techniques, and education and outreach activities for their mortgage lending enforcement programs. These "best practices" will be made available to all State and local agencies in the Fair Housing Assistance Program (FHAP).

ENDING CHRONIC HOMELESSNESS

And the homeless must not be forgotten. We are making strides in reducing chronic homelessness with our "continuum of care" approach. We are working to provide assistance across the entire spectrum of homelessness. This continuum of care is vital because homelessness is a complex, difficult, multi-dimensional problem, both for those who are homeless and for those who are working to meet the needs of the homeless.

Our national effort to end homelessness has been steadfast, with strong commitment and investment. Since 2001, HUD has awarded approximately $10 billion in funding to support the housing and service needs of the homeless.

We are working especially hard to stop the revolving door for the chronically homeless. Early on in this administration, President Bush set a goal to end chronic homelessness in America. If we are to be successful, we must help break a cycle of circumstances and behaviors that consistently place the chronically homeless on the streets.

And there is evidence that we are making progress. The investment by HUD and local communities is working. In November, HUD announced that, across the country, local communities saw a nearly 12 percent drop in the number of individuals who literally call the streets their home, nearly 20,000 fewer persons living on our streets. This was good news. It shows that the hard work of thousands of people is paying off, that our efforts can make a powerful, positive difference.

Of course, we still have a long way to go before ending chronic homelessness. There are still people living on the streets, many of them are mentally ill, addicted to alcohol and/or drugs, or physically disabled. These are the most vulnerable among us, the hardest-to-house and the hardest-to-serve. The chronically homeless are people who are homeless for more than a year or who continue to cycle back into homelessness. They are people who need serious, sustained assistance to overcome their homelessness.

Madam Chairwoman, I know you are mindful of the need to help our Nation's homeless veterans. Americans are deeply, profoundly grateful for the service and sacrifice of our Nation's veterans. In the proposed budget, there is a request for $75 million for our Veterans Affairs Supportive Housing Program (VASH). Prior to fiscal year 2008, this program had not been funded since 1993. Working with the Veterans Administration, we will create an additional 9,800 vouchers for fiscal year 2009, bringing the total to approximately 20,000 homeless veterans being served through housing and social services and double the number of available housing vouchers.

CONTINUING HUD'S IMPROVED MANAGEMENT AND PERFORMANCE

Finally, I would like to discuss the management of the Department. For the first time since 1994, the Government Accountability Office (GAO) removed HUD's single-family housing mortgage insurance and rental housing assistance programs from the list of High-Risk Federal programs. I am very proud of that fact.

I am also very pleased that HUD achieved a clean opinion in its 2007 financial statements, continuing a multi-year trend.

We need to build upon this progress. So, Madam Chairwoman, I also want to mention that the $313 million included in the request for our Working Capital Fund will enable the Department to make critical upgrades to our aging information technology (IT) systems. If we want to improve the delivery and control of the Department's significant program resources for the benefit of the people and communities we serve, then it is imperative that we have sufficient funding for IT systems modernization efforts. The $65 million reduction of our 2008 request for IT funding was devastating. That reduction has stopped practically all HUD systems modernization efforts.

Madam Chairwoman, this subcommittee should know that without sufficient funding, we will be unable to modernize FHA's 25 year old mainframe systems to effectively support FHA program reforms. We will be unable to improve the automation of the section 8 Project-Based Assistance contract renewal and payment proc-

esses. We will be unable to effectively implement asset management improvements over the public housing stock. We will continue to manage our $16 billion a year Housing Choice Voucher Program through a cumbersome spreadsheet process rather than an automated database that can provide timely information for HUD and Congressional oversight. HUD has demonstrated the ability to successfully use its limited IT funding. I urge you to support the budget request for IT funding.

CONCLUSION

Overall, this is a good budget for the Department . . . balanced, reasonable, appropriate, and workable. It allows us to operate within a framework of cooperation and partnership with other Federal agencies, State and local governments, and nonprofit initiatives. The American people count on HUD . . . count on us for direct assistance, grants, professional administration, and high-quality public service. With this budget we meet those expectations. With this budget we can get the job done.

I also want to thank the employees at HUD for their extraordinary service during a very trying and difficult period. Madam Chairwoman and members of the subcommittee, I am sure that you would be extremely impressed by the day-to-day work product of our employees. I am very proud of my colleagues at HUD.

Madam Chairwoman, as we proceed through the budget process, I look forward to working with you. I thank you and the subcommittee for your consideration of this budget request.

SELLER DOWN PAYMENT PROGRAM

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

We will have 5-minute rounds, and I'm told that we may start voting as early as 10:30, so I will try and make mine short so we can get to everybody.

Mr. Secretary, HUD's budget assumes that there will be major reforms to the FHA Single Family Housing program and I'm told that if these reforms are not enacted this year the MMI Fund could potentially face a $1.4 billion shortfall. We're also told this is largely the result of the defaults of the seller down payment program. What are your views on the seller down payment program and its impact on the solvency of the FHA fund?

Secretary JACKSON. Chairlady, we really believe that the seller down payment program, if we are still forced to carry it, will create severe problems for us, on the brink of insolvency for this year. We have heavy reserves, but this year it's creating a problem. As I said when I was reading the statement, it's three times higher than our default rate. We're about two and one-half and they're three times higher. It is presenting serious problems.

Senator MURRAY. What is the default rate for the program?

Secretary JACKSON. What is that?

Mr. MONTGOMERY. The foreclosure rate is 2.3 percent and the default is about 6.3 percent.

Secretary JACKSON. Foreclosures—well, come and tell the chairlady.

Mr. MONTGOMERY. Brian Montgomery, FHA Commissioner.

Our overall foreclosure rate the last quarter of 2007 is 2.3 percent. The default rate is about 6.3 percent.

Senator MURRAY. What is it costing the taxpayer to run this program compared to the standard FHA mortgage program?

Mr. MONTGOMERY. The Secretary is exactly right. These loans that have seller-funded down payment assistance are two and one-half, three times more likely to default. As you know, part of what we've been trying to do is to sound the alarm on just how volatile these loans are. We proposed a rule, too, that would eliminate that

type of assistance, but were stopped, sued and stopped in two court decisions last week.

Senator MURRAY. Let me ask you, Mr. Secretary. Last week the U.S. District Court for the District of Columbia vacated the HUD final rule that prohibited the Seller Down Payment Assistance Program you're referring to from acquiring an FHA guarantee. How does that court decision affect HUD's ability to ensure the solvency of the FHA Fund?

Secretary JACKSON. Chairlady, I'm not sure that I can answer that because the judge in his opinion said exclusively I was not to deal with the process. He excluded me out of the process. Brian can answer it for you, but I cannot.

Senator MURRAY. Well, let me get an answer in writing from you, because I do want to ask one more question on my time and turn it to Senator Bond.

[The information follows:]

SELLER DOWNPAYMENT PROGRAM

The Department is re-publishing the Notice of proposed rulemaking in order to allow for additional comment on information that further explains and supports HUD's proposal to prohibit seller-funded down payment assistance. In its proposal, HUD is advising the public that the current practice that allows for seller-funded down payment assistance is having a serious negative impact upon the overall financial health of the FHA Fund. The Senate's FHA modernization bill also prohibits this type of assistance.

HECM

Senator MURRAY. HUD's Housing Equity Conversion Mortgage, the HECM program, provides elderly home owners the option of taking out a reverse mortgage on their home in order to meet their financial needs today, providing them with the flexibility to use that equity in their homes for what they need, health care, home repairs. As we're watching our elderly population struggle with this economic downturn, this program has become increasingly important to them. In fact, it is the fastest growing loan program within FHA.

We are seeing some pretty distressing news reports, including one by AARP, of unscrupulous sales agents who are selling older home owners annuities, long-term care insurance, investments, home repairs, that are very high in cost and low in value to the consumers, and sometimes these schemes are done with the collaboration of lenders participating in the HECM program.

What steps is your Department taking, Mr. Secretary, to crack down on these abusive practices directed at HECM borrowers by sales agents and lenders?

Secretary JACKSON. You're absolutely correct, chairlady, and we are doing everything with the Office of Housing to seek out these persons. We're very, very concerned about this process because we do a large number of HECM loans. And I am very, very committed to senior citizens that they don't lose their homes. So we are making every——

Senator MURRAY. Are you taking any action against any of the lenders?

Secretary JACKSON. I can get that information for you. I know that our Assistant Secretary has taken some action. I'm just not sure how much action we took.

Senator MURRAY. Okay. I'd like that back in writing, then.

Secretary JACKSON. I will make sure I get that for you.

[The information follows:]

HOUSING EQUITY CONVERSION MORTGAGE (HECM)

Over the past 2 years, FHA has taken major steps to mitigate risk in its Home Equity Conversion Mortgage program. During fiscal year 2007, FHA reviewed 90 mortgages and a total of 4,572 HECM loan files, uncovering findings in half of the loans examined. FHA issued findings letters to these mortgagees notifying them of the deficiencies.

PUBLIC HOUSING CAPITAL FUNDS

Senator MURRAY. Senator Bond?

Senator BOND. Thank you very much, Madam Chairman.

I'm very much concerned about the Capital Funds for public housing. Apparently a 2000 ABT study estimated the annual accrual needs of capital. When you inflate them to 2009, it looks like they are being budgeted at about 79 percent of the need, which I understand to be about $20 billion. There are multi-billion dollar backlogs existing.

Do we have an adequate estimate or a reasonable estimate of what those needs are, and how do you plan to maintain this large inventory of housing into the future if we're not meeting the ongoing needs?

Secretary JACKSON. Senator Bond, I really believe that we do, and I will give you the overview and I will have Paula come and give you the depth.

As you know, when we created the Commission on Severely Distressed Public Housing back in the late 1980s, early 1990s, we said that there were about 88,000 severely distressed public housing units in this country. As of to date, we have demolished 150,000. We've built back some 60 or 70,000.

Senator BOND. Thanks in large part to HOPE VI in some areas.

Secretary JACKSON. No question. And you know you will not get an argument with me about HOPE VI.

Senator BOND. Just because I set it up, I appreciate your willingness to agree.

Secretary JACKSON. You won't get an argument.

But I will let Paula give you the details.

Senator MURRAY. Please. We're concerned about it.

Ms. BLUNT. Just to add to that, I would like to say that we're still using the figures from the 1998 study that you were talking about, and we are in the process of procuring services to do a new capital needs study and that will be under contract by next month. So we will have a real more current estimate of what those modernization needs are.

Senator BOND. Based on that previous estimate, what is the general range of the needs and how much of that is funded in this budget?

Ms. BLUNT. I'm not sure. I guess we would have to get back to you on that. I'm not sure of the exact dollar amount in terms of those needs right now.

Senator BOND. That's what I'm very worried about. Frankly, until OMB understands these needs are a critical investment, we're going to see the stock decline and we're going to face even greater costs in the future.

Secretary JACKSON. What we've done, Senator, is given the housing authorities permission to use their bond authority in many cases, to use their reserves to make sure that they do the capital replacement.

PUBLIC HOUSING OPERATING FUND

Senator BOND. That's a band aid. That's a band aid but it isn't curing the underlying infection.

Let me turn to the Operating Fund. There is $4.3 billion in the request. How much of these funds will be dedicated to ensure proper training of asset-based management and how ready are the PHAs to take it on? Is this something they have the ability to do?

Secretary JACKSON. I think so. As you know, Senator, even before we moved to asset-based management, when I was in St. Louis and Washington, DC and Dallas, I basically practiced asset management. Those assets that were not viable we got rid of and only managed those that were viable. That's all we're asking again for the housing authorities around the country to do.

I think they have the ability to do that, and we will assess that process.

Ms. BLUNT. If I could just add to that, as you mentioned the technical assistance and training, we have $5.9 million that we're suggesting for that. Just as early as yesterday, we sent out invitations to the industry to come meet with us in order to talk about what they feel the best use of that money is in terms of what kind of technical assistance that the housing authorities need in this transition to asset management. We're in the first stages of that, as you know.

HOPE VI

Senator BOND. I will have a bunch of questions on section 8 and FHA, but I'm not going to pass up HOPE VI without asking you how we can keep it alive, how we can facilitate development. Have you considered new bonding authority, continued redevelopment through an alternative program? How do we get rid of the distressed housing?

Secretary JACKSON. Senator, let me say this. Of the 270-so grants that we have made on the HOPE VI, 75 have been completed to date since 1990. We have outstanding right now about $1.4 billion. I would love to somehow recapture the money and send it to cities that have performed well.

Senator BOND. Well, I would agree——

Secretary JACKSON. I just think that——

Senator BOND [continuing]. But if they're not doing the job——

Secretary JACKSON. We have some cities with HOPE VI moneys that are 10 years old that have not been spent. If we could just capture those between 5 and 10, we could probably get $600 million

out of this process or more. So I think that the money is there and we should utilize it for those cities that are performing well.

Senator BOND. I believe we've tried to get that done, but your staff has been resisting because it's a difficult choice. But we need to continue to talk about that.

Secretary JACKSON. I'll be happy to.

Senator BOND. If you'll support it, maybe you can pass that word down to some of the folks who work for you.

Secretary JACKSON. I will do that.

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

Senator MURRAY. Senator Specter?

PHILADELPHIA, PA/UNIVERSAL COMMUNITY HOMES DISPUTE

Senator SPECTER. Thank you, Madam Chairman.

Mr. Secretary, did you call Mayor Street about the dispute that Philadelphia Housing Authority was having with Universal Community Homebuilders?

Secretary JACKSON. Senator, I did speak to the Mayor, but not about any dispute.

Senator SPECTER. What did you speak to the Mayor about?

Secretary JACKSON. Just the completion of the HOPE VI project, that's all.

Senator SPECTER. But you're saying that you did not talk to him about the dispute PHA was having with Universal Community Homes?

Secretary JACKSON. Senator, I've said to you that I spoke to him about the completion of the project, that's all.

Senator SPECTER. Nothing about Universal's unhappiness with having this piece of property not turned over to them?

Secretary JACKSON. Senator, I've just told you the truth.

Senator SPECTER. So you're saying that didn't enter into your conversation at all with Mayor Street?

Secretary JACKSON. Senator, I have told you the truth and I think that the person who spoke to him mostly was our staff member, Dominic Bloom, who spoke to him.

Senator SPECTER. Do you know what your staff member told Mayor Street?

Secretary JACKSON. Just we were concerned about the completion of the project.

Senator SPECTER. Anything about Universal Community Homes being unhappy that the land wasn't turned over?

Secretary JACKSON. Senator, I have told you the truth, and I think you and I have a relationship. I have not lied to you and I'm not lying to you now.

Senator SPECTER. Did anyone from Universal contact you concerning PHA's refusal to turn over that ground?

Secretary JACKSON. If they did, I mean, I can't remember, I really can't. I don't think—I can't remember. I don't want to say no, I just can't remember.

Senator SPECTER. A possibility that they did?

Secretary JACKSON. I can't remember.

Senator SPECTER. Mr. Secretary, you have these e-mails, three e-mails on January 12, 2007. The e-mails are "Would you like"—this

is Mr. Cabrera: "Would you like me to make his life less happy," referring to Carl Greene. What reason would Mr. Cabrera have for wanting to make Carl Greene's life less happy?

Secretary JACKSON. I think you would have to ask Mr. Cabrera.

Senator SPECTER. Well, I will.

When you saw these e-mails, albeit only 2 days ago, didn't they arouse some concern or suspicion on your part that something was amiss if they're out to make Carl Greene's life unhappy?

Secretary JACKSON. I think if you look at what I said, what I submitted to you last evening, Senator, it said I think it was made out of frustration, and I made that very clear to you. I think that you and I have had lots of discussion on this matter and we had not come to a resolution, and I was working directly with you to try to get a resolution. And I think that many of our staff people, as I said, were operating on a very frustrated level.

Senator SPECTER. Well, what were the frustrations if not retaliation?

Secretary JACKSON. I can't answer that, sir. I just think that, as I said to you before, we had been trying to work the accessibility out, as in my memorandum to you; work it out, that's all we are trying to do, to make sure that the civil rights of the disabled are covered. That's all we're talking about.

Senator SPECTER. Well, Mr. Secretary, you have these e-mails, "Would you like me to make his life less happy? If so, how?" on January 12. You have a response, "Take away all of his Federal dollars," on January 12. A response to that, "Let me look into that possibility," on January 12. Then on January 12 your Department tells PHA that they might be in danger of losing a lot of money.

Isn't that an extraordinary coincidence——

Secretary JACKSON. Senator——

Senator SPECTER [continuing]. If not causally connected?

Secretary JACKSON. Senator, as I stated to you earlier, I will make every endeavor to answer the questions, but I don't know the intricacies. That's why when I—it was not there to insult you. That's why I said that if there were questions, please, if you can tell me what they are I will go back and have the staff answer those questions for you. I really don't know all of the intricacies.

As I said to you in the memo, I saw this as of Tuesday. Am I concerned? Yes. But I don't know all the intricacies.

Senator SPECTER. You say you are concerned, yes, and what?

Secretary JACKSON. I don't know all the intricacies of what occurred. That's why I'm saying that's why I'd like to get back to you, to find out what occurred, why it occurred, and have the staff answer your questions.

Senator SPECTER. Well, Mr. Secretary, I will pursue that with you. But on this state of the record, the question is what were these Assistant Secretaries doing? And when you have this exchange of e-mail about making his life unhappy and taking away the funding and "I'll look into that," and then the same day they take action which now is amounting to a potential loss of $50 million, that's just too much of a coincidence. It all happens on the same day.

These aren't collateral frustrations or something else. This is simultaneous. That kind of timing is very, very forceful evidence that

they're taking action to take away the money, making his life unhappy, and they're doing it for this reason.

Secretary JACKSON. Senator, again, as I stated to you earlier, I will be happy to get back to you. As I stated in the memorandum to you, I saw this for the first time on Tuesday, and I am making every effort to get to the bottom of it.

When you sent me the letter—and I really appreciate it because you did say "Al"—that's why I responded so quickly, because I thought that, to try to get to the bottom of it. I don't know all the answers at this point.

Senator SPECTER. Well, Mr. Secretary—just another minute, Madam Chairman—I will take you up on your offer. Then you're willing to sit down with me and Mr. Cabrera and Ms. Kendrick and get to the bottom——

Secretary JACKSON. Mr. Cabrera's no longer with us.

Senator SPECTER. Well, I know he's no longer with you. I will invite him. Will you encourage him to come?

Secretary JACKSON. I have no problems at all.

Senator SPECTER. Thank you very much.

One addendum, what I would really like to do at the meeting is to spend our time to see if we can't solve the controversy. I would a lot rather deal with the substance of this issue and get $50 million for housing for the poor in Philadelphia than air a lot of laundry.

Secretary JACKSON. Senator, we have been trying to resolve that. I think the staff has been working very hard to resolve that. But I would tell you this. I'll do whatever you ask because I have a great deal of respect, but I don't think we can sit down and resolve the problem when a lawsuit was brought against us. It would be very difficult.

Senator SPECTER. No, no, you're not right about it. The case can be settled. The parties can come together. The judge would be delighted.

Thank you very much, Mr. Secretary. Thank you, Madam Chairman.

Senator MURRAY. Thank you very much, Senator.

Senator Lautenberg.

PUBLIC HOUSING MAINTENANCE

Senator LAUTENBERG. Thank you very much, Madam Chairman.

Mr. Secretary, we're all upset, frustrated, if I may use your own terminology, with what's happened in the funding needs for the maintenance of public housing. What we see is technology gone awry.

And despite the housing authorities' alarm about public housing in crisis, especially with rising utility and operational costs, despite that, President Bush's budget falls $850 million short of what is needed just for the maintenance needs of public housing. How can these authorities provide decent affordable housing that thousands of people depend on when they don't have the money to make the basic repairs? What should they do?

Secretary JACKSON. I think, Senator Lautenberg, that's a very fair question. I believe that since we have demolished almost 150,000 units in this country since 1990, we believe that we still

have enough capital funds, with the bonding authority, with the reserve, and, as Mrs. Blunt said a few minutes ago, with we're doing the second portion of the study for the capital needs. If this study comes out that there's more capital needs, I will be the first to defend that process and come before you.

Right now, I think we have enough capital needs, and if I'm wrong I'll be the first to admit I'm wrong.

Senator LAUTENBERG. Why is that taking review now? Shouldn't it have taken place before the budget was presented? Were you consulted before you got your budget for the year?

Secretary JACKSON. We do this on a, I think it's about every 8 or 10 years we do the study. What is it?

Every 10 years, and this is the time for us to do it and so we're doing it again.

Senator LAUTENBERG. Now, what happens every 10 years?

Secretary JACKSON. We do a study, Senator, to decide what the capital needs are for all of the housing authorities, the 2,300 housing authorities around the country.

Senator LAUTENBERG. For a 10-year cycle?

Secretary JACKSON. Yes, for a 10-year cycle.

Senator LAUTENBERG. Anybody hear about inflation or growth in population or any of those things?

Secretary JACKSON. Yes, sir.

Senator LAUTENBERG. I'm not sure what a 10-year cycle does, a 10-year review does.

And this has been reviewed by my colleagues. Last April in front of this committee you said to me that you hadn't touched one contract, and that was after the IG, Inspector General, looked into allegations that you injected political favoritism into Government contract awards. Now an investigation is taking place for asking a housing authority official in New Orleans to provide a contract to a friend. And there are new questions about your involvement in a controversy involving a friend and the transfer of property in Philadelphia. I think Senator Specter covered that.

How do you feel about those comments now?

Secretary JACKSON. Senator, I will say that I think it is best, with all the misinformation that has been put out right now, to simply let the investigators do their job quickly and expeditiously as possible. Therefore, I am going to let the investigators complete their work before I make any public comment.

I am confident that when the dust settles and the investigators finish their work, the allegations will be put to rest. But I would like to just continue to try to do the work that I've done to provide decent and affordable housing. That's really where I am.

Senator LAUTENBERG. Your statement, Mr. Secretary, doesn't match with the budget that's being sent here now to us. We can't get the job done. We can't provide decent, affordable housing. You say that you support it, but how can we do that without the funds necessary?

Secretary JACKSON. I really think, Senator, that the funds are sufficient to carry out this responsibility. I guess I'm in a very unique situation, having been the only HUD Secretary to run a housing authority. I ran three housing authorities. And I truly be-

lieve that the funds are sufficient, and that I have worked with the people in the industry to make sure that the funds are.

You know, the question is can you always use more? The average person will say yes, there's no question about it. But I think that clearly sir, they have enough tools to work with to carry out and produce safe, decent, sanitary housing for low and moderate-income people.

Senator LAUTENBERG. You suggest—and I'll take just a moment more, Madam Chairman, if I may. You suggest that there's a lot of misinformation out there. You—I quoted you here. Are you saying that these were—this was not your statement that you haven't touched a contract, and this was after the Inspector General looked into allegations? Is that the misinformation you're——

Secretary JACKSON. No, sir, that's not. When I said that to you, I specifically said that—I think it's a quote—''I have not touched a contract,'' which means that I cannot originate a contract, I cannot cancel a contract. Those are handled by the contract review board and others in the agency. I will be happy, if you want to, to show you the process that is used.

Senator LAUTENBERG. Well, I would hope, Mr. Secretary, you knew what was coming at this hearing. You knew the questions that were going to be asked. And to be able to defend what took place at the same time insufficient funds to carry out a serious responsibility to provide safe and affordable housing is very disappointing.

Thank you, Madam Chairman.

Secretary JACKSON. Thank you.

Senator MURRAY. Senator Allard.

SELLER FINANCING

Senator ALLARD. Thank you, Madam Chairman.

I want to follow up a little bit on what Madam Chairman had asked you about, seller finance. I think it's important that we draw a distinction between seller financed down payment and what would be referred to as legitimate gift down payment assistance, which creates real equity, the latter creating real equity in the home. Can you say a few words on the beneficial forms of down payment assistance? And then I'd like to have you comment a little bit about the American Dream Down Payment Act that we both worked on.

Secretary JACKSON. Surely. I'd like Brian to do that for you if it's okay with you, Senator.

Senator ALLARD. Yes.

Mr. MONTGOMERY. Yes, sir. Brian Montgomery, the FHA Commissioner.

Sir, are you talking about the volatility of the seller-funded, or——

Senator ALLARD. Well, there are two down payment assistance categories. There's the seller finance, where you have your problems, and then there's what we call sort of gift down payment assistance——

Mr. MONTGOMERY. Yes, sir.

Senator ALLARD [continuing]. Which is the kind of assistance that's promoted by the American Dream Down Payment Act. I

think that it's important that the committee understand the difference between those two types of down payment assistance.

Mr. MONTGOMERY. Yes, sir. Thank you. There are several groups of borrowers that use FHA. There are those families that tend to save the money themselves, sock it away; when they have enough money for a down payment they apply for an FHA loan. There are others who use the seller-funded down payment assistance, which I think we've addressed that issue. And then there are those that use assistance from units of local government, State and local housing finance agencies.

It's no surprise that the lowest claim rates are those that save their own money and then purchase a home. Those that use assistance from local housing finance agencies and others; the claim rate is about one and one-half times larger than it is for those who use their own funds. But it jumps up to two and one-half, almost three times more likely to go to claim, when families use the seller-funded down payment assistance.

Senator ALLARD. Okay. On the American Dream Down Payment Act, what are you proposing for that program in your budget?

Mr. MONTGOMERY. That is under a different office in HUD, sir, but I believe its $25 million.

ADDI

Mr. BREGON. Good morning, sir. My name is Nelson Bregon. I'm the General Deputy Assistant Secretary in the Office of Community Planning and Development. We administer the American Dream Down Payment Initiative under the HOME program.

For that program, originally the administration had requested $200 million. It has been funded at $50 million. Now, for 2008 we received $10 million in funding for that program. That money is distributed by formula. It goes to participating jurisdictions. There are about 600 of them, and those participating jurisdictions use the moneys as down payment assistance for low income residents.

Senator ALLARD. I see.

Mr. BREGON. Of that portfolio, I think about 12 percent are FHA-guaranteed. Then Mr. Montgomery has the numbers as to the default rate on the ADDI program is similar to the regular portfolio of the FHA.

Senator ALLARD. I see, okay. Thank you.

Secretary JACKSON. Thank you.

RESPA

Senator ALLARD. I want to move to RESPA if I might.

Secretary JACKSON. Yes, sir.

Senator ALLARD. I understand that the proposal that you're working on now is close to 270 pages—I guess this is a rumor on the street—and that the good faith estimate, which was previously proposed would be one page long, is now somewhere around four pages, another rumor on the street.

Further, a new form of comparing GFE and HUD is apparently being introduced and real estate closings will now have to have a script read explaining aloud loan terms and fees.

It doesn't sound like simplification to me. I know that's what one of your goals was. And I wondered if you might explain those rumors.

Secretary JACKSON. Well, let me say this, Senator. It is simplification, but I will let Commissioner Brian go into depth with it.

Senator ALLARD. Okay.

Mr. MONTGOMERY. Thank you, sir. The 278-page preamble will be published tomorrow in the Federal Register. However, today it is available for public viewing at the offices of the Federal Register, so I can discuss it in some instance.

While the preamble is long, we are updating a 34-year-old statute, the Real Estate Settlement Procedures Act. We think that it's implicit from what we've seen the last several years, that there's better disclosure to the borrower, there's greater certainty of costs, so we avoid the sticker shock between the good faith estimate today and what ends up on the HUD–1 statement. You can talk to some of the consumer groups, as I'm sure you have, and they will share multiple instances of families who witnessed and experienced that sticker shock first-hand.

So our guiding principle is that we wanted to develop a good faith estimate, a standardized form that takes some of the best of what other organizations have proposed, from what we've seen in best practices, and make it a document that not only fully articulates to the borrower what they're getting into, but also provides them a document that they can now do what very few borrowers do, and that is shop for the best deal that they can get.

Senator ALLARD. Was the process simplified?

Mr. MONTGOMERY. Yes, sir, absolutely. And I want to say——

Senator ALLARD. Less paperwork, so when you're closing, instead of it being this, it's more like this?

Mr. MONTGOMERY. We are doing our best to do that, sir. It may shorten by a quarter of an inch. I can't promise you much more than that. But I will say this: We've conducted extensive consumer testing and the consumers have been telling us that they like the standardized form. They like the fact—none of us—very few of us have degrees in finance, and when you see terms in a closing document, we've all experienced that process in our life and I don't think any of us when we leave that closing table feel 100 percent good about what we've just done. Now, the euphoria of owning your home may overtake that. But you put your best faith into the system.

We are trying to get to the heart, where consumers leave that settlement table where they've had it explained to them and they say, you know, I feel good about what I've just done. The closing script that would be read along with the HUD–1 statement is the single most item that consumers told us they like the most, because now it's being explained to them in plain, simple English what they were doing.

Senator ALLARD. Thank you, Madam Chairman.

HUD OVERSIGHT

Senator MURRAY. Thank you, Senator.

Mr. Secretary, obviously there are a number of issues in front of this committee regarding the budget that are extremely important.

However, as I said in my opening statement, this subcommittee has a tremendously important oversight role for every dollar appropriated by it. And as you have heard, your agency is operating under a cloud right now. I know, as I said in my statement, you're tired of the allegations, we're tired of them. I think it's important that we clean up some of that and want you to answer a series of questions that I have as openly and as honestly as you can. Our committee has the responsibility for taxpayer dollars and I would like you to answer in the spirit of that.

Mr. Secretary, you did testify before us last year that you have never involved yourself in any contracts with HUD. You said: ''I have not touched one contract, not one.'' I would like you to address the allegations regarding your involvement in the hiring of William Harrison to serve as a construction manager at the Housing Authority of New Orleans. Since 2002 your agency does run that authority in receivership.

Mr. Harrison reportedly is a personal friend of yours and received between $400,000 and $500,000 through a no-bid contract for 18 months of work. That's a good bit more money than you make as the Nation's top housing official. Mr. Harrison has told the press that he believes he was hired for this position because of your involvement.

It's alleged that you personally involved yourself in seeing to it that Mr. Harrison was paid on a timely basis. Finally, it has been alleged that members of your senior staff slapped the wrist of certain officials at the Housing Authority of New Orleans that questioned the hiring of Mr. Harrison.

Mr. Secretary, did you personally recommend Mr. Harrison to be employed by the Housing Authority of New Orleans, as he asserts?

Secretary JACKSON. Chairwoman, I think it is best, with all the misinformation being put out there right now, to simply let the investigators do their job quickly and expeditiously as possible. Therefore——

Senator MURRAY. You have an opportunity to——

Secretary JACKSON. Therefore——

Senator MURRAY. You have an opportunity to set the record straight here and I'm asking you a direct question.

Secretary JACKSON. Therefore, I'm going to let the investigators complete their work before I make any public comment.

Senator MURRAY. Well, it is alleged that you personally called one of your employees, Mr. Donald Babers, to complain that Mr. Harrison was not getting paid in a timely way by the Housing Authority of New Orleans. He is your appointee on the HANO board of directors. Have you personally complained to Mr. Babers, to any HUD contractor, or to any other individual currently or formerly employed by HUD regarding whether Mr. Harrison was getting paid or the pace at which he was getting paid?

Secretary JACKSON. Again, chairlady, I think it is best, with all the misinformation that is being put out there right now, to simply let the investigators do their job quickly and expeditiously as possible.

Senator MURRAY. Mr. Secretary, you have an opportunity before this committee that has oversight of your agency and the tax dol-

lars that we appropriate, to clean this up, and I would ask you to answer honestly if you could for us this morning.

Secretary JACKSON. Therefore, I'm going to let the investigators complete their work before I make any public comment.

Senator MURRAY. Well, did you ever discuss with Mr. Thorson any HUD contractor or any other individual currently or formerly employed by HUD the matter pertaining to Mr. Harrison's contract and whether or not it should be signed?

Secretary JACKSON. I think it is best to let the investigators complete their work, and I will say again that I think it is important that they complete that work and I will let them do that before I make any public comment.

Senator MURRAY. So it is clear you'll not answer any questions about New Orleans. Let me ask you about the Housing Authority of the Virgin Islands. It's had a very troubled history and it's also operated by your agency in receivership. It's alleged that you personally advocated the hiring of a friend of yours, Mr. Michael Hollis, by a company called Smith Real Estate Services, which was a HUD contractor on the Virgin Islands. Mr. Hollis reportedly had no experience in public housing, but a short time following his employment as the HUD contractor Mr. Hollis was hired directly by HUD to be executive director of the Virgin Islands Housing Authority, at a compensation level that is reported to have exceeded a million dollars.

Mr. Secretary, did you ever have a conversation with any HUD contractor or any individual currently or formerly employed at HUD regarding the merits of hiring Mr. Hollis for either the position at Smith Real Estate Services or the position with the Virgin Islands Housing Authority?

Secretary JACKSON. Again, chairlady, I think it's best, with all the misinformation that's being put out there right now, to simply let the investigators do their job as quickly and expeditiously as possible. Therefore, I'm going to let the investigators complete their work before I make any public comment.

Senator MURRAY. Did you have any conversations with your Assistant Secretary, Orlando Cabrera, or anyone else currently or formerly employed, or any HUD contractor, regarding the compensation level that Mr. Hollis would receive?

Secretary JACKSON. I think it is best, with all the misinformation being put out there right now, to simply let the investigators do their job——

Senator MURRAY. You won't comment on any conversations regarding Mr. Hollis's contract?

Secretary JACKSON [continuing]. Investigators do their job as quickly and expeditiously as possible. Therefore I'm not going to comment, any public comment, until they finish their work.

Senator MURRAY. Well, Mr. Secretary, as you can imagine, it's very difficult for this subcommittee. We have responsibility to take care of our responsibility of oversight. You control an agency that spends millions of taxpayer dollars. Your agency's operating under a cloud at this point. I think that it is imperative that you clear up these questions as quickly as possible so that we can continue to serve our taxpayers, and I hope that by submitting these to the

record that you will reconsider and answer the questions to the committee.

Secretary JACKSON. Thank you very much, chairlady.

Senator MURRAY. Thank you, Mr. Secretary.

Senator Bond?

Senator BOND. Madam Chairman, I would only say that with an ongoing investigation, we sought to get information from the IG about it. They told us this was an ongoing investigation and they would not comment with it. When there is an ongoing investigation, I would have to say that if potentially serious charges may come out of it, was I representing someone in Secretary Jackson's position I would have to tell him, instruct him not to answer questions, to allow the investigation to be finished.

Having said that, we will be, obviously, following very closely the results of that investigation and what comes out. When that investigation closes, then, if appropriate, I think once that is resolved then we should have answers to all of these questions. But given the circumstances, I, as an attorney who's represented some people who were in trouble, I'd have to tell you that I would have a strong edict not to get out ahead of it.

Now——

Senator MURRAY. Senator, I totally understand your statement. However, the IG has not told this committee that we can't conduct our oversight.

SECTION 8

Senator BOND. Oh, no question about it, we can conduct our oversight. But all I said was the IG, when we asked about it, the IG said it's an ongoing investigation. The IG's office would not tell us about this investigation. We have oversight responsibilities and I have a whole bunch of serious questions that go, not to these particular allegations.

For example, I am concerned about section 8. With $14.3 billion budgeted, what percent of the authorized vouchers will this amount pay for? And how many section 8 funds are available, but are unused because of the caps in place? If you could prepare us a map showing where there has been more money made available above the caps, that we can work with you to figure out how to help you allocate those funds to make sure in a shortfall of section 8 funds that they go where they are most needed?

What's the situation with the caps, where some PHAs have more money available than the caps?

Secretary JACKSON. I will let Milan Ozdinec, who controls the program, Senator, discuss that with you.

Mr. OZDINEC. Good afternoon, Senator. How are you? It's an honor to be here.

As you may know, there is about $2.2 billion today sitting in accounts called net restricted assets. These are funds that were previously appropriated by this body as well as the House to provide housing authorities with HAP payments as well as administrative fees. Of that $2.2 billion, approximately $800 million of that are funds that are above the caps, that is funds that housing authorities may not use because they're at their authorized amounts of units.

We, as you may know, have advocated for the past 3 years to having the caps removed and to allow housing authorities that, for example, had done all the right things, reduced payment standards, improved their utility allowances, provided minimum rents, to reduce their costs so that they could serve more families.

As you may also know, in last year's budget, in 2008, the Congress instructed the Department to offset the appropriation by $723 million of that unusable cap money. So housing authorities that had been at their caps and have money in their net restricted assets we will in fact offset in 2008.

FHA SECURE

Senator BOND. Well, it would be nice to be able to let the PHAs have all the section 8 money they need. But given the budget we've been presented, there is such a squeeze that we may not have that luxury. It would be great to have the well-performing PHAs rewarded, but the shortfalls we have are serious.

Let me turn very quickly, Mr. Secretary, to the FHA, and you may want to call up the FHA Commissioner. Number one, I assume you'll be refinancing mortgages at their current value only. What steps are you going to take to assure the appraisals are accurate? Do you have the staff and expertise for FHA to ensure that this program runs efficiency?

This is a big concern.

Mr. MONTGOMERY. Absolutely, Senator, and we share in that concern. With the FHA Secure product, again these are conventional FHA refinances we're talking about here. Probably 95, 97 percent of those are subprime, subprime ARMs. We are very aware of the declining housing markets in this country. Therefore we require a new appraisal prior to the transaction occurring to ensure that we have the best snapshot in time of what that home is worth.

Moreover, in markets that are weak, that are called declining markets, severely declining markets, we require two appraisals, two appraisals, to make sure again that some of what you see is happening in the subprime market does not occur in FHA.

Senator BOND. Thank you, Madam Chairman.

ADMINISTRATIVE AND JUDICIAL RECEIVERSHIPS

Senator MURRAY. Mr. Secretary, the President's budget includes $10 million to fund administrative and judicial receiverships. HUD currently has six public housing agencies under administrative receivership, in other words under your control, complete control. The Department often uses these funds to contract with outside vendors that, according to your budget justification, have the specialized knowledge and expertise needed to address specific deficiencies in housing authority performance.

Can you give me examples of the types of contractors you're looking for to assist a public housing authority under receivership?

Secretary JACKSON. Ms. Blunt will answer that for you.

Ms. BLUNT. I'm sorry, the last time I did not identify myself. I'm Paula Blunt, the General Deputy Assistant Secretary for Public and Indian Housing.

When we go into, when we take over a housing authority that goes into receivership, we usually do an assessment to see where

the needs are. Many times they vary from housing authority to housing authority. The financial-related matters is a big one, so usually many times we may have a contractor come in that can provide financial assistance. Section 8 is one. Many times if the housing authority is having severe problems with their section 8 program, we may bring someone in there to help with that.

But when we bring the contractors in, not only do they help to fix the problem, but they train the staff also so that they can eventually have those skills, be able to do that, so we can return the housing authority to local control.

Senator MURRAY. Okay. Mr. Secretary, when you hire those contractors do you set specific performance measures or milestones, and how do you establish the value for the services that they provide?

Secretary JACKSON. That is done out of Public and Indian Housing.

Ms. BLUNT. Yes, we do establish standards——

Senator MURRAY. But it is under your control, correct, Mr. Secretary?

Secretary JACKSON. All of HUD is under my control.

Senator MURRAY. Right. So can you tell us how those specific milestones are met?

Secretary JACKSON. I think that Ms. Blunt can tell you, because they're the persons who carry out the program.

Ms. BLUNT. Yes. They are—when the contract is set, there are specific standards, milestones that must be met. They are part of the contract, and they will vary according to what the needs of that housing authority and the expertise that we need.

Senator MURRAY. What safeguards do you have in place so that those contractors actually have the experience?

Ms. BLUNT. We do a review. We go through our Office of Procurement and Contracts, which has review of the experience. There are panels that review the applications that come in and the panels actually make those decisions and they are forwarded for signature, approval.

Senator MURRAY. So they are required to have experience within the work frame of——

Ms. BLUNT. Yes.

Senator MURRAY [continuing]. What you're contracting them for?

Ms. BLUNT. Definitely.

Senator MURRAY. Did you do that for the Virgin Islands?

Ms. BLUNT. We do that for all of our contracts.

Senator MURRAY. Did you do it for the Virgin Islands?

Ms. BLUNT. I specifically didn't, but yes, they are done for all contracts. There's an established process in the Department through our Office of Procurement and Contracts where there are certain things that have to be met. If you could look, think of it in terms of a job application. When someone applies for a job, there are certain things, criteria——

Senator MURRAY. Did your Department do that for the Virgin Islands?

Ms. BLUNT. Yes, we did.

Senator MURRAY. Mr. Secretary, you have PHAs that have been under HUD's control for years and years, a few of them for over

a decade. If a PHA has been under HUD's control for several years, what would be the rationale for an emergency-based non-competitive sole source contract?

Secretary JACKSON. I think you'll have to ask, have to ask the entity that gave the contract.

Ms. BLUNT. Many times we may run—from time to time we run into a situation like that, and it could be the emergency situation. Without calling names, we have a situation that recently came about where there was no staff left at a housing authority to perform the functions and it was necessary to get someone in there right away to take care of the needs of those residents and that housing authority. So in that case you don't have the time to go out for the long, lengthy contract process in terms of bringing in competitive bids or whatever. We take them off one of the lists that we have and give them, award the contract to someone that has the expertise.

Senator MURRAY. And was that the case in the Virgin Islands as well?

Ms. BLUNT. I'm sorry?

Senator MURRAY. Was that the case in the Virgin Islands as well?

Ms. BLUNT. I'm not definitely sure. I would have to check on that. I think it was a sole source contract, so that probably is. If it was that kind of contract, that is what would have happened.

MIAMI-DADE HOUSING AGENCY

Senator MURRAY. The Miami-Dade Housing Agency, Mr. Secretary, has recently come under your control and we're seeing news reports related to the mismanagement and wide scale potential fraud of HUD funds. Can you tell us HUD's actions to date with Miami, including what HUD staff you've placed on the ground and who you've contracted with to assist in this effort?

Secretary JACKSON. I can't tell you that. I'm sure Ms. Blunt can.

Ms. BLUNT. Yes. We've been working with the local government there in Miami-Dade and others to take care of the situation. That happened to be one of the ones I was referring to where the staff had been pulled from the housing authority and we had to do an emergency contract to get someone in there that could take care of those needs. We're still in the process of doing the things that need to be done to bring everything together, but we do have a contract there, a contractor there. We have HUD staff there. We have a HUD person there working diligently on a day to day basis to do what needs to be done to work with that housing authority.

Senator MURRAY. Senator Bond.

HOMELESS FACILITIES

Senator BOND. Thank you, Madam Chairman.

I have just three questions that I want to wind up my formal questions, the rest for the record. I mentioned, Mr. Secretary, the problem we were having with the underutilized and unutilized public lands and buildings for the homeless. I'd be interested to know what criteria you have for making these, this housing available to the homeless or rejecting it. Do you have standards about putting

homeless shelters next to schools, and how many people on your staff are responsible for implementing this program?

Mr. BREGON. Good afternoon, sir.

Senator BOND. Good afternoon. It has not quite turned into afternoon. We've been at this, but it's getting there.

Mr. BREGON. It seems like a long time.

Sir, the Department of Housing and Urban Development under the McKinney-Vento Act, is responsible for looking at, under the BRAC program, any military bases, any military properties that are surplus properties, or any other Federal land that becomes available.

What we do first is we publish a list in the Federal Register, a notice that indicates to the public which sites are available.

Senator BOND. Do you make any judgment about whether those sites would be suitable before you publish the list?

Mr. BREGON. We do not. We just publish the list and then we request proposals. Usually the local communities create a local redevelopment authority and those agencies are the ones that submit proposals to us saying, that land, we would like to use it for a park, we would like to use it for a public facility.

In that process, the homeless providers also have an opportunity to look at that facility. What we do is we look at the need of the homeless in that particular area and make a determination whether in fact there is a homeless need.

Senator BOND. Well, one of the things in the instances I cited, this was something that the local authorities were very dead set against, and they pointed out the lack of continuum of care.

How many people are implementing that program?

Mr. BREGON. That is serviced out of our Special Needs Office. We have one individual that looks at the plans and they look at the data that we have available to determine what are the housing needs for that jurisdiction.

Senator BOND. Do they look at whether that is an appropriate selection, site for homeless?

Mr. BREGON. What they do is they work with the local redevelopment authority and say, there is a housing need and perhaps you can negotiate with that group.

Secretary JACKSON. Let me say this, Nelson. I see what the Senator is getting to.

Senator, let me go back and see how we can——

Senator BOND. I think on this one there's a little disconnect between what I'm hearing and what we saw.

Secretary JACKSON. I understand. I remember the incident that was in the papers.

HECMS

Senator BOND. There are several incidents now. The incidents are multiplying.

Let me jump to HECMs. I understand Australia is a year ahead of us. They've addressed a number of predatory lending issues. What are the key issues facing HECMs? HECM fees are high. It seems to be perhaps unduly lucrative. Has HUD taken any steps to reduce the cost of HECMs?

Mr. MONTGOMERY. Brian Montgomery again, sir.

We've been working diligently with AARP, with the National Reverse Mortgage Lenders Association, I daresay refereeing in some cases those discussions about how we can bring down the origination costs for reverse mortgages. While this product has been around 20 years and it has seen its growth rise dramatically of late, it is still a niche product by and large. That may change in 5, 10, 15 years. So they are certainly more time-consuming than a forward mortgage product.

I think there are some legislative remedies. We just want to be mindful, though, that lenders—if you do low origination costs, we don't want to make sure they try to make it up somewhere else. So those discussions continue, and I think we are in agreement that we need to bring those origination fees down.

Senator BOND. Do you need legislation? Do you have legislative recommendations, or do you have recommendations against legislation that's being considered? Should we act? What should we not do?

Mr. MONTGOMERY. I just think we need to be mindful of the teeter-totter effect, that if we lower the origination cost lender, as they do, and that's the way business is, that they'll drive up costs somewhere else.

But I do agree going forward as this product continues to grow in popularity, this issue needs to be addressed, as it is now. But I would like to share later on some requests and some suggestions with this committee and how we could do that.

Senator BOND. I would hope you will. My cohort is—the folks who are still alive at my reunions are all becoming more and more interested in HECMs, and I wanted to make sure my classmates are well served.

Thank you very much.

Mr. MONTGOMERY. Thank you, sir.

Senator BOND. Mr. Secretary.

Secretary JACKSON. Thank you.

HUD OVERSIGHT

Senator MURRAY. We all share that concern, Senator Bond. Thank you.

Mr. Secretary, I do want to go back because again I do believe this committee has oversight. I do have a question I want to ask you regarding Philadelphia. You did answer Senator Specter's question. It has been alleged that you personally intervened on several levels to try to get a certain parcel of land that's been controlled by the Philadelphia Housing Authority to be sold to Mr. Kenny Gamble, an acquaintance of yours. It's alleged you not only instructed your regional staff to look into the matter, but you personally called Mayor Street of Philadelphia to encourage him to force the Philadelphia Housing Authority to sell that parcel to Mr. Gamble.

I want to ask you a separate question: What conversations have you had with any HUD contractors or any individuals currently or formerly employed at HUD regarding Mr. Gamble's issues with the Philadelphia Housing Authority and whether or not this parcel of land should be sold to Mr. Gamble?

Secretary JACKSON. You know, chairlady, I think it's best, with all this misinformation that's being put out right now, to simply let the investigators do their job as quickly and expeditiously as possible.

Senator MURRAY. I think I've heard that response, Mr. Secretary.

Secretary JACKSON. Therefore—therefore, I am——

Senator MURRAY. But I have to tell you, it is very frustrating to me that you sat here and answered Secretary Specter's question regarding the phone call forthrightly and honestly. I have given you the opportunity to do that now on a number of questions as well. Yet you refuse to answer me on those questions. It's very frustrating when you did answer Senator Specter.

Secretary JACKSON. I think it is—I think it is very frustrating to me. There's an ongoing investigation.

Senator MURRAY. Yet you answered Senator Specter's question.

Secretary JACKSON. And I think that we should simply let them do their job, and once that's done——

Senator MURRAY. But this committee does have a responsibility of oversight. We are responsible for doing that. It's frustrating to hear no responses.

Secretary JACKSON. And I respect you, chairlady, but I don't think I can answer.

Senator MURRAY. Thank you, Mr. Secretary.

ADDITIONAL SUBMITTED STATEMENTS

The following statements from the National Association of Housing and Redevelopment Officials and Hector Pinero before the Committee on Banking, Housing, and Urban Affairs have been submitted for inclusion in the record.

[The statements follow:]

PREPARED STATEMENT OF THE NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS

Thank you for holding an oversight hearing on HUD's fiscal year 2009 budget. The 23,000 members of the National Association of Housing and Redevelopment Officials (NAHRO) look forward to working with you and the committee to ensure that our Nation's housing and community development needs are adequately addressed as part of the fiscal year 2009 budget and appropriations process.

Following a detailed review of the administration's 2009 budget presentation, we believe the request not only calls into question the underlying justification for critical program funding cuts in fiscal year 2009, but also raises a more fundamental question regarding the administration's plans to address well-documented and long-deferred housing and community development needs. A full listing of NAHRO's funding recommendations to help address current needs is attached to this letter. We have also attached several charts demonstrating the impact of the president's budget on HUD programs. We hope you find this information to be helpful.

Housing has taken center stage of late as many families face foreclosure resulting from questionable, sub-prime lending practices. As the "first responders" to local housing needs, local housing agencies have already been called upon to assist families caught up in this crisis. Community development agencies are already searching for ways to help devastated neighborhoods to recover. Our members stand ready to continue to assist families and communities in need. Going forward, we welcome the opportunity to work with the committee to design and later implement pragmatic responses to this crisis.

However, as the committee is also well aware, the Nation's housing and community development needs are much larger than the mortgage crisis we now face. Consider the fact that nearly 14 million American families face severe housing needs, paying over 50 percent of their incomes toward housing costs or living in substandard housing. In communities nationwide, families face daunting waits for

scarce rental housing assistance. In fact, on any given night, nearly 750,000 people, many of them children, are homeless.

In short, NAHRO believes that the administration's 2009 budget request, if adopted, would continue a pattern of large scale disinvestment in our Nation's irreplaceable inventory of affordable housing and would undermine efforts to sustain vibrant communities by cutting or eliminating programs to revitalize our Nation's community infrastructure.

In recent years, we have made the committee aware of our questions and concerns regarding significant funding reductions contemplated in affordable housing and community development programs. These questions are raised once again by the President's fiscal year 2009 proposal. Going forward, we believe the larger question before the Congress is: what resources are necessary to sustain current levels of assistance to families and communities, and how as a Nation do we begin to make progress toward addressing unmet needs? For example, how will we preserve 1.1 million units of public housing, renew all vouchers, maintain vital community and economic development services, and address the millions waiting for some form of assistance to secure decent housing? These are the questions your committee, along with your colleagues on the Budget and Appropriations Committees in both houses, must, in our opinion, resolve to address.

Among the more striking examples found in this budget which we believe to be emblematic of the challenges and concerns noted above is the administration's request for basic public housing operations. The Department's own budget justification states that $5.3 billion is necessary to subsidize the 1.1 million families living in public housing, yet its budget request inexplicably asks for just $4.3 billion. We believe that the rationale for this and other contradictions in the budget request is best explained by the administration and we hope that more will be learned during your hearing. It is safe to say, however, that the fiscal year 2009 budget request, which would fund local agencies' public housing operations at just 81 percent of need, would constrain local agencies' ability to administer public housing in a responsible way and, as a result, underserve those most in need. In sum, we believe this budget denies residents the quality of life in public housing that they deserve.

There are several additional recommendations in this budget request that merit reversal. For example:

—*Disinvestment in Public Housing Infrastructure.*—The budget proposes $2.024 billion for the Capital Fund, a $415 million (17 percent) decrease compared with the amount provided by Congress for fiscal year 2008 ($2.438 billion). This recommendation has been put forward for the second year in a row despite the fact that the HUD's own estimates of long term deferred maintenance are between $18 and $20 billion.

—*No Disaster Planning for Public Housing.*—Within the Capital Fund account, the budget does not request funding for public housing disaster relief. The budget narrative states that "FEMA disaster assistance is available for any needs that are not covered by the required property insurance." Despite HUD's assertion, however, disaster assistance from FEMA for PHAs has not been forthcoming in recent years. Differing HUD and FEMA interpretations of the agencies' Memorandum of Understanding (MOU) have meant that neither agency has stepped in to provide the funding necessary in a major disaster, save HUD's limited allocation of emergency capital funds.

—*HOPE VI Eliminated.*—The President's budget proposes, once again, to zero out funding for the HOPE VI program. Instead, the administration intends to spend out the "remaining balance" in the program, which amounts to more than "$1.4 billion as of the end of 2006." Except for unawarded grants from fiscal years 2007 and 2008, however, this $1.4 billion is already committed to previously awarded grants. It is not available for new projects and awards as the administration seems to imply.

—*Deep Reductions in CDBG Formula Grants.*—The President's fiscal year 2009 proposal would fund Community Development Block Grant formula grants at $2.934 billion, a $659 million (18 percent) cut. This proposed cut is actually $865 million (24 percent) if one considers the administration's unrealistic proposal to offset fiscal year 2009 funding by rescinding $206 million in prior-year, special-purpose grants. Amounts available to local communities would be further reduced if Congress adopted the administration's proposal to set-aside $200 million of the remaining CDBG funding to support competitive "challenge grants" for communities pursuing targeted neighborhood revitalization.

—*Elimination of Economic Development Programs.*—The budget proposes to eliminate the section 108 Community Development Loan Guarantee program, the Brownfields Economic Development Initiative (BEDI), and the Rural Housing and Economic Development (RHED) program, arguing that "these programs are

duplicative" and that "their activities are eligible to be funded by CDBG and other Federal programs." Because they are valuable components of the Federal community and economic development toolkit and should remain available to States and localities, NAHRO has consistently called upon Congress to fully fund HUD's economic development programs. The section 108 program, for example, allows an entitlement community to borrow up to five times the amount of its most recent CDBG formula allocation in order to finance large-scale physical improvement projects. HUD's own Office of Community Planning and Development, during a recent briefing for public interest groups, suggested that the section 108 program could be valuable to communities as a "source of funding to address problems created by the sub prime crisis" noted above. All three programs received funding under the Fiscal Year 2008 Omnibus Appropriations Act.

—*Insufficient Housing Voucher Assistance.*—HUD's budget assumes $14.161 billion in fiscal year 2009 appropriated funds for rental housing assistance voucher renewals, to be augmented by $600 million in agencies' net restricted assets, for a total of $14.8 billion. NAHRO's preliminary estimate is that $15.4 billion will be needed to support the voucher program in fiscal year 2009. When compared with PHAs' voucher expenditures in calendar year 2008, HUD's budget request would leave the program significantly under funded at levels insufficient to cover inflation, let alone the renewal of approximately 14,000 incremental vouchers appropriated in fiscal year 2008.

—*Underfunding Effective Administration of the Voucher Program.*—HUD's budget request includes $1.4 billion for Housing Choice Voucher administrative fees, including $1.34 billion for ongoing fees of existing vouchers and up to $40 million for PHAs that need additional funding to administer new vouchers in fiscal year 2009. The nominal increases in these accounts, however, will be insufficient to fully pay for needs for both ongoing and new vouchers, leading to likely downward prorations of administrative fees. Without sufficient funding for administration, local agencies will not be able to maximize the efficiency of available rental assistance dollars, will not be able to maintain program integrity, and will not be able to provide families with the services and support necessary to find appropriate housing.

—*Short-funding Project-Based Section 8 Contracts.*—HUD's budget would provide $7 billion for the section 8 project-based multi-family housing program for fiscal year 2009, representing a $682 million increase (10.8 percent). In addition to the $7 billion, the budget proposes a $400 million advance appropriation, which would become available on Oct. 1, 2009, to bridge renewal funding into fiscal year 2010. Recent HUD estimates of the amount needed to fully fund renewals for the full 12 months of the contract term rather increments through September 30, 2009, have cited the need as $8.1 billion. NAHRO is concerned that the short-funding of contracts as proposed by the Department may increase owner uncertainty and hasten the loss of affordable housing.

Taken together, the budget request provides no assurance that well-documented housing and community development concerns will be resolved in fiscal year 2009. This, in our opinion, places our invaluable affordable housing infrastructure at risk and thwarts our ability to undertake necessary revitalization of our neighborhoods and communities. Some will contend that larger, unrelated budget pressures necessarily limit funding for these accounts. However, those familiar with the Nation's housing and community development assets fear that we will pay an even greater price for years of disinvestment in this infrastructure if we fail to recognize the economic downside of our inaction and continue to underfund these accounts.

Our public housing stock represents a 70-year commitment to provide decent, safe, and affordable housing in this country. Local housing agencies, with few exceptions, preserve this inventory in a responsible and cost-effective manner. However, this is an older inventory that, like any other form of real estate, will deteriorate if its needs are unmet. The longer these needs are unaddressed, the more the cost of repairing the infrastructure grows. If let go too long, the price tag to sustain this inventory will become too great a burden on the Federal budget. At that point, absent a plan to provide new affordable housing, families will, quite possibly, be displaced.

Thank you for this opportunity to outline our concerns and advance our recommendations on the fiscal year 2009 HUD budget. Under your leadership, the committee has worked hard in recent years to improve upon a series of bad HUD budgets. We look forward to working with you once again this year to ensure that America's affordable housing and community development needs are addressed in fiscal year 2009.

NAHRO FISCAL YEAR 2009 FUNDING RECOMMENDATIONS

[in millions of dollars]

Program	2008 Enacted	2009 Proposed	NAHRO Recommendation [1]
Public Housing Operating Fund	4,200	4,300	[2] 5,300
Elderly & Disabled Service Coordinators	[15]	[16]	50
Public Housing Capital Fund	2,439	2,024	3,500
Resident Opportunity & Supportive Services	[40]	[38]	55
HOPE VI	100		800
Safety & Security			310
Tenant-Based Rental Assistance (Sec 8 Vouchers), Total	[3] 16,391	[3] 15,881	
Housing Asst. Payments	[3] [14,695]	[3] [14,161]	[4] 15,400
Admin Fees	[1,351]	[1,400]	1,540
FSS Coordinators	[49]	[48]	72
Tenant Protection Vouchers and Administration	[$200]	[$150]	([5])
Project-Based Section 8	6,382	7,000	([5])
Community Development Fund	3,866	[6] 3,000	
Community Development Block Grant formula grants	[3,593]	[6] [2,934]	4,500
Brownfields	10		25
Rural Housing/Econ. Dev.	17		25
Sec. 108 Loan Guarantees	5		7
HOME	1,704	1,967	
HOME Formula Grants	1,628	1,901	2,000
ADDI set-aside in HOME	[10]	[50]	
HOPWA	300	300	300
Homeless Assistance Grants	1,586	1,636	([7] [8])
Affordable Housing Production			[9] 1 ,000

[1] NAHRO requests are for stand-alone programs only. Blank indicates no position.

[2] Reflects the administration's own estimate of need.

[3] TBRA figures displayed on a program-year basis, consistent with appropriations bill language. HUD documents display figures on a fiscal year basis, which blend program years.

[4] Renewal of existing and incremental vouchers based on 2007 calendar year voucher leasing and cost data through September 30, 2007, inflated by blended BLS Consumer Price Index, Urban (CPI–U), Rent of Primary Residence component. Assumes a 96 percent utilization rate.

[5] Fully Fund.

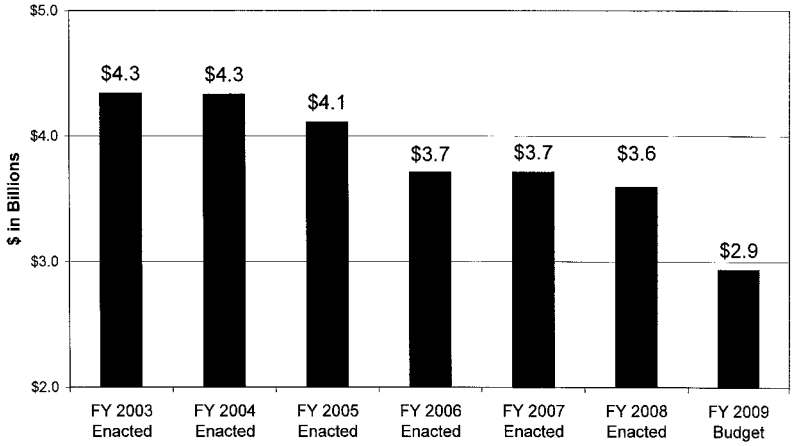
[6] The President's budget nominally requests $3.000 billion for the CD Fund for fiscal year 2009. However, it offsets this amount by presuming the cancellation of $206 million in fiscal year 2008 Economic Development Initiatives and other earmarks within the fund. The combination of the request and rescission results in a net fiscal year 2008 appropriations request of just $2.794 billion for the CD Fund.

[7] NAHRO's proposed funding level for Homeless Assistance Grants is for existing McKinney-Vento programs and does not include the administration's proposed $50 million set-aside for the Samaritan Initiative.

[8] At least $1,636.

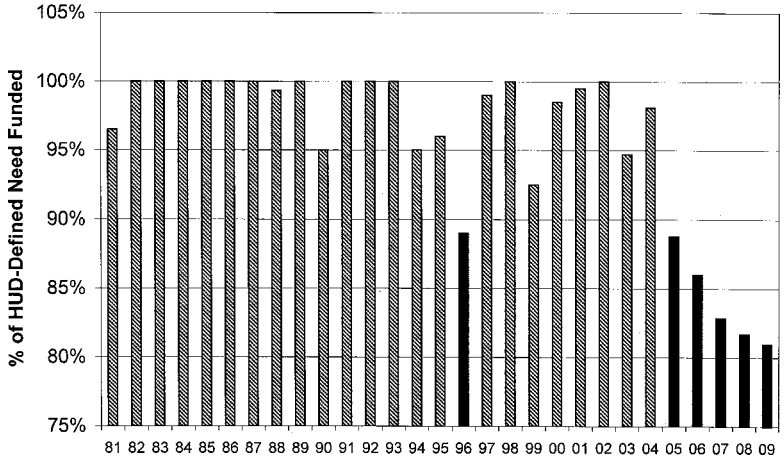
[9] Affordable Housing Production should be derived from sources other than appropriations if possible.

Community Development Block Grants Cut Dramatically
FY 2003 - FY 2009

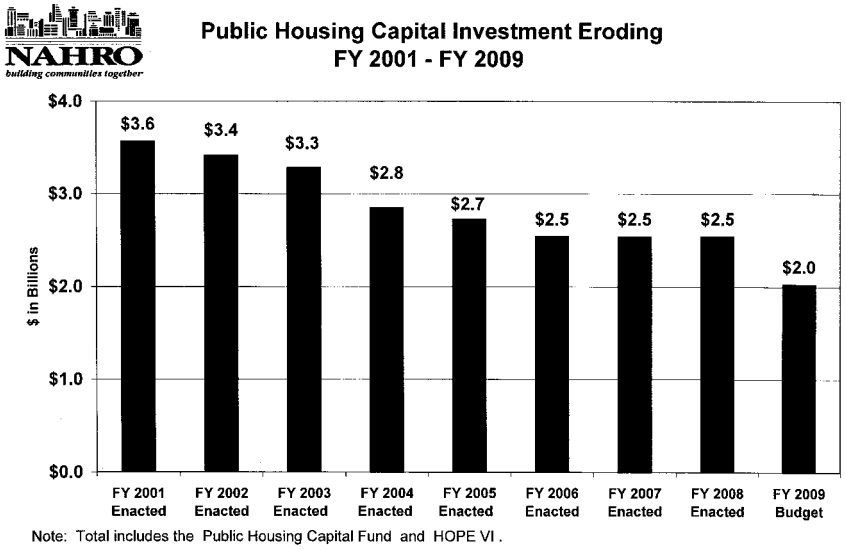


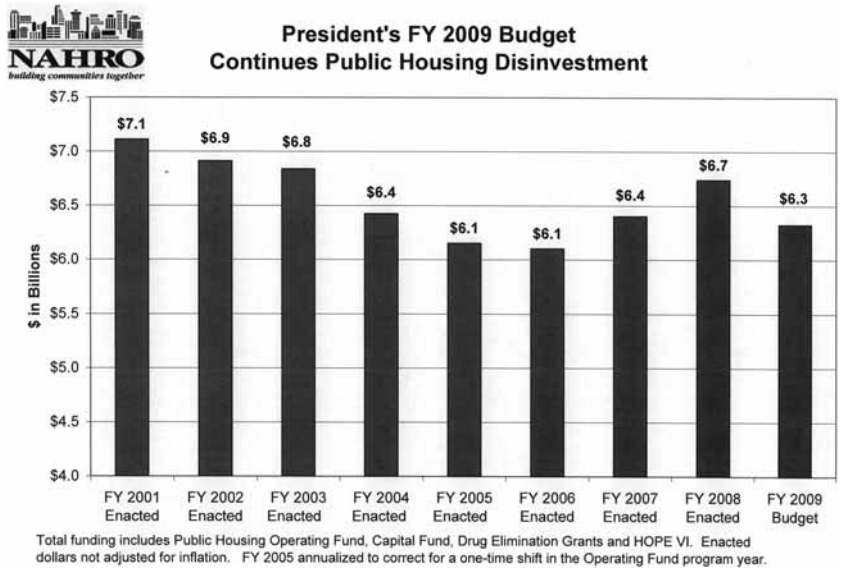
Note: CDBG *formula* grants only. President's FY 2008 Budget proposes $2.934 billion for CDBG formula grants, but assumes $206 million of that amount would be funded through rescission of prior-year earmarks.

Public Housing Operating Fund in Historic Decline
Operating Fund Prorations, FY 1981 - FY 2009



Note: The Proration is the percentage of HUD-defined Operating Fund needs covered by available appropriations. Source: HUD Operating Fund data. Fiscal Year 2009 = President's budget; all others enacted





PREPARED STATEMENT OF HECTOR PINERO BEFORE THE COMMITTEE ON BANKING, HOUSING, AND URBAN DEVELOPMENT ON BEHALF OF THE NATIONAL LEASED HOUSING ASSOCIATION, NATIONAL MULTI HOUSING COUNCIL, AND THE NATIONAL APARTMENT ASSOCIATION

Chairman Dodd, Senator Shelby and distinguished members of this committee, my name is Hector Pinero and I am senior vice president of Related Management Company. My firm manages 26,000 apartments of affordable and market-rate housing in 135 locations in 13 States from New York to California. I am responsible for the affordable housing portfolio in the New York metropolitan area. Today I am representing the National Leased Housing Association (NLHA) the National Multi Housing Council (NMHC) and the National Apartment Association (NAA).

NLHA represents the interests of 600 member organizations involved in federally assisted rental housing including developers, owners, lenders, housing agencies and nonprofits. NLHA's members provide affordable rental housing for over 3 million families.

NMHC represents the interests of the larger and most prominent firms in the multifamily rental housing industry. NMHC's members are the principal officers of these organizations and are engaged in all aspects of the development and operation of rental housing, including the ownership, construction, finance and management of such properties.

NAA is the largest national federation of State and local apartment associations, with nearly 200 affiliates representing more than 51,000 professionals who own and manage more than 6 million apartments.

We commend you, Chairman Dodd, for your leadership, and we thank the members of the committee for your valuable work addressing the important issue of housing and the Federal budget.

FISCAL YEAR 2009 PROPOSED BUDGET

On February 4, the President unveiled his fiscal year 2009 budget. The President's plan would fund the U.S. Department of Housing and Urban Development (HUD) at $38.7 billion, which according to the Center on Budget and Policy Priorities, is $330 million above current levels, but insufficient in light of the housing affordability issues plaguing this country. The HUD budget continues to strain efforts to provide decent and safe affordable housing. Over the years, HUD spending has declined significantly, illustrated by the fact that HUD's budget in 1974 was nearly $70 billion (in today's dollars) as compared to the $38.7 billion being proposed for fiscal year 2009. Clearly, such cuts are indicative of the reduced commitment of the Federal Government to affordable rental housing in favor of failed homeownership policies.

We would like to focus our testimony on two programs that are the cornerstone of federally assisted housing, the section 8 tenant-based rental assistance program, also known as the Housing Choice Voucher program and the section 8 project-based programs.

PROJECT-BASED SECTION 8

The project-based section 8 programs, enacted more than 30 years ago, have provided effective and enduring shelter for millions of low-income families. In addition to making possible the construction or rehabilitation of housing units dedicated to low-income occupancy for extended periods, the program reduces the rent burden for low-income residents living in those properties.

My company, Related Management, has its headquarters in New York City and owns and manages about 26,000 units of multifamily housing in 13 States from New York to California. Our section 8 project-based inventory totals 11,287 units in 64 projects.

In our opinion, the section 8 subsidy mechanism is the most effective housing subsidy ever devised by Congress. It is an elastic subsidy that can reach the very poorest families and keep their rent burden proportionately the same as the rent burden of families with more income.

However, for section 8 to be an effective program, HUD must comply with its contractual promise to housing providers to make timely monthly assistance payments. These assistance payments cover the difference between tenant rent contributions, generally set at 30 percent of a tenant's adjusted income, and the HUD-approved rents for the property. The tenant rent contribution generally pays for only a small portion of the costs of running a property, including debt service payments. Without assistance payments from HUD a building cannot continue to operate and serve its residents.

While HUD has been late sporadically in making payments over the past several years due to its antiquated computer systems, it was not until last summer that a major disruption in payments occurred. From June through September, late payments were widespread over most of the country. The negative impact of HUD being delayed in meeting its contractual obligations has both short- and long-term consequences, which we will discuss along with our recommendations to the committee for addressing the problem.

In the case of our company, for example, we billed HUD in June 2007 for $9.8 million in assistance payments for the month of July. Almost one-third of our bill, or $3.1 million, was not paid by July 31, and about 20 percent or $2 million remained unpaid until November. One of our properties, in San Diego, received no funds for the period of July through November, for a total of $875,000. No doubt

many other owners have been hit harder than us, but any late payment at any time is indefensible.

Owners do what they can to cope during these periods of nonpayment, such as drawing funds from a replacement reserve and other reserves if they exist, borrowing funds, delaying payments to vendors, and making personal contributions. However, not all properties have the ability to make ends meet when HUD fails to make timely payments, resulting in notices of default, inability to pay operating expenses, deferred maintenance, etc.

Late Housing Assistance Payments (HAP) not only affect the operations of a project but also make more difficult the preservation of these aging projects through sales, often to nonprofit or other preservation purchasers that commit to long affordability periods, and through rehabilitation, usually with proceeds from the low-income housing tax credit.

Purchasers, lenders, and tax credit investors have been put on alert that the Government may not perform under its contracts, and they will act accordingly to protect their interests, assuming they continue to participate at all. We have attached to our testimony a list of 19 adverse consequences of delayed or insufficient HAP funding. We think it will be helpful to explain the circumstances that resulted in the late HAP debacle.

In the mid-to-late 1970s and early 1980s, when the section 8 project-based programs were first developed, the monies for the HAP contract (be it 20, 30 or 40 years) were funded up front. For example, the costs of a 20-year contract were appropriated during the first year of the contract. Further, the subsidy amounts were based on the total rental costs at the time and did not consider the tenant contribution, which left wiggle room for rent increases during the contract term. When the first of the 20-year contracts started to expire around 1994, it was the first time in 20 years that Congress needed to make an appropriation to subsidize the properties. Congress agreed to fund the renewals, but only at rents not to exceed comparable market rents (hence the Multifamily Assisted Housing Restructuring Act (MAHRA), which provided the Mark-to-Market program and ultimately the Mark-Up-to-Market program).

As the number of HAP contracts renewing under MAHRA continued to increase and more appropriations were needed, instead of HUD requesting additional funds in its budget request, the Department chose to ask for less funding than was actually required to renew the contracts. This approach masked the true costs of contract renewals, but it was successful for a number of years because HUD was able to recapture previously appropriated funds remaining in HAP contracts that were about to expire. When most of the 20-year contracts expired around 2001 and 2002, the availability of recaptured funds diminished. HUD's need for increased funding for section 8 renewals should have been reflected in its budget proposals around that time, but again HUD chose to mask the true costs.

To enable the renewal of contracts without sufficient appropriations, HUD chose to renew the HAP contracts with less than 1 year of funding. For example, if a contract expired in December 2005, HUD would provide 9 months of funding until September 30 (the end of the fiscal year) instead of providing the full 12 months of funding up front. Essentially, it was bifurcating the 12 months of funding over 2 fiscal years. In this example the remaining funding for the contract would have been provided after October 1 (the new fiscal year) at which time 3 months of funding would be added to the contract for a total of 12 months. Until last year, this practice was invisible to the owners. However, in the fall of 2006, HUD's Chief Financial Officer (CFO) determined that such partial funding of contracts could not continue as the CFO believed this approach to be a violation of the Antideficiency Act (ADA), a law that is intended to ensure that appropriated funds are not mishandled. This new interpretation of the law by the CFO (which, incidentally, was not put into writing until requested by Members of Congress more than a year later) resulted in HUD reverting to funding renewals for the full 12 months in advance and not in increments.

Because the HUD fiscal year 2007 budget request was based on its previous practice of partially funding contracts, there were insufficient funds appropriated by Congress, thus creating a large shortfall. The result of the shortfall was a delay in funding to thousands of section 8 properties. When HUD realized in May 2007 that it would not have sufficient funding to renew all of the contracts expiring in fiscal year 2007, HUD's Office of Housing eventually reached a compromise with its CFO office to revert to partial or incremental funding of renewal contracts as long as the renewal HAP contract was amended to reflect the fact that partial (and not 12-month) funding was being provided at the time the renewal contract is executed. In other words, if HUD disclosed to the owner that only partial funding was being provided, the CFO deemed that HUD was not in violation of the ADA.

HUD's policy of incrementally funding (or funding for less than 12 months) continues in the current fiscal year (fiscal year 2008) because of insufficient appropriations. Further, the President's fiscal year 2009 request does not include sufficient monies to put section 8 contract renewals back on a 12-month funding track. Insufficient funding coupled with HUD's inefficient payment process and questionable disbursement systems is likely to create financial disruptions to section 8 properties for the foreseeable future.

The perception a partially-funded contract creates is devastating. It is of a government struggling to keep its financial house in order. Until recently, several years of predictability and stability in the section 8 renewal process have led purchasers, lenders and investors in section 8 properties to rely on long-term section 8 renewal contracts, even though they are subject to annual appropriations, as sufficient backing for their investment. They assumed the appropriations risk in these contracts because they thought the risk was minuscule. They are not so sure anymore.

There are other more technical, but serious, concerns with short funding commitments. These contracts purport to bind an owner to providing section 8 housing for 1 year. If HUD funding stops after 4 months, is the owner bound to continue to comply with section 8 rent and other rules without receiving assistance payments? If the owner can get out of the contract will it be bound by the 1-year tenant notice statute, which will prevent the owner from raising rents for 1 year after an opt-out notice to the tenants? Will the tenants be eligible for enhanced vouchers if the contract is abrogated? Will HUD wait until the 1-year notice period has elapsed before awarding enhanced vouchers to the tenants, as has been its recent policy? Will there be sufficient funding for all enhanced vouchers?

All of these concerns will influence an owner's decision to remain in the program or to opt out, as well as decisions about whether to purchase and rehabilitate section 8 projects. At a minimum, owners will more likely give routine notices to tenants that they intend not to renew a section 8 contract, in order to reduce their exposure period during which they do not receive assistance payments but cannot raise rents. These opt-out notices will cause anxiety among tenants who will be placed in a continual state of uncertainty as to whether they will lose their homes or not.

Unless the industry has confidence that the Government is committed to adequate and timely funding, the section 8 inventory is likely to shrink in size. Nor will it get the new investment needed to preserve these properties as affordable housing and to keep them affordable far into the future.

What can this committee do to help rectify the damage done to the section 8 inventory? First, it can exercise close oversight over the process HUD uses to make section 8 assistance payments, as well as how budgetary needs are calculated. The Secretary should be directed to use a portion of the appropriated working capital funds for this purpose. Second, legislation should be enacted to: impose a penalty on HUD when its payments are more than 30 days late; remove any requirements that owners receive HUD permission to use reserves to pay their mortgages and employees when HAP payments are late; and require HUD to notify owners when late payments are anticipated. Third, the committee should urge that sufficient appropriations be provided for fiscal year 2009 to avert the use of a succession of short-term funding obligations by HUD.

HOUSING CHOICE VOUCHERS

We would also like to express our strong support for the section 8 Voucher Program. Housing Choice Vouchers enable nearly 2 million households of low- and very-low-income families and the elderly to achieve decent, safe and affordable housing. The program has been successful because it provides choice to families, allowing them to rent decent and safe apartments in the communities that are near their schools, churches and workplaces. It also has the benefit of reducing the concentration of poverty. Vouchers also enable the private sector to partner with housing agencies to improve the housing stock in communities as well as protect tenants during market rate conversions. Vouchers are an essential tool for the provision of housing assistance and are supported by the owner community. Related Management is a strong supporter of this program and currently leases to 1,600 voucher holders.

We are concerned about the future of the program because HUD's budget proposes to reduce funding for the voucher program by nearly $500 million, offsetting the reduction by relying on unused reserves, a move that the Center on Budget and Policy Priorities (CBPP) believes will result in the loss of at least 100,000 vouchers. Further, the proposed budget recommends using a funding formula that would base fiscal year 2009 funding on the costs per voucher (plus inflation) from fiscal year 2007

instead of the previous 12 months. This is unacceptable to our members because such an approach will result in additional shortfalls, jeopardizing housing assistance currently in use by tens of thousands of low-income families. It is imperative that the 2009 funding cycle be based on leasing and cost data for the most recent Federal fiscal year as provided for fiscal year 2008 by the Omnibus Appropriations Act (H.R. 2764) that President Bush signed into law on December 26, 2007. This is a fair formula that maximizes the amount of dollars provided by the appropriations process and ensures program stability.

THE BROADER NATIONAL HOUSING CRISIS

The current situation in the for-sale housing market is an unfortunate turn of events that is made even more unfortunate by the fact that it was completely foreseeable and preventable. For decades the Government has pursued a "homeownership at any cost" housing policy. Many Government officials, like other participants in the housing sector, mistakenly assumed that house prices would always go up. So they enticed people into houses they could not afford, and they forgot the rarely spoken truth that there is such a thing as too much homeownership.

Now we are seeing the consequences of that misguided policy. For years, we and others have been predicting this meltdown. We have been warning policymakers that pushing homeownership so aggressively could be disastrous not only for the hard-working Americans lured into unsustainable homeownership, but also for our local communities and our national economy.

That is exactly what is happening now. People are losing their homes, local communities are struggling with blight and crime, and our national economic growth is at risk. We understand that policymakers are worried that this situation might spill over into the broader economy, and we support efforts to help our country avoid a housing-induced recession.

The mortgage market meltdown represents a failure of Government oversight and regulation. Despite repeated warnings, nothing was done to prevent it. On the contrary, the Federal Government gave a "green light" to this bubble by trying to push homeownership without limits and even trying to create a federally insured no-downpayment mortgage.

Unfortunately, while there was much the Government could have done to prevent this crisis, there isn't much it can reasonably do now to alleviate it. What it can do, however, is recognize its own mistakes and ensure that this doesn't happen again. And that means, among other things, recognizing that homeownership isn't the right housing choice for all households at all points in their lives. Housing our diverse Nation well means having a vibrant rental market along with a functioning ownership market. It's time we adopt a balanced housing policy that doesn't measure success solely by how much homeownership there is.

CONCLUSION

I thank you for the opportunity to testify on behalf of the National Leased Housing Association, the National Multi Housing Council and the National Apartment Association, and wish to offer our assistance to the committee as you continue your important work.

SOME IMPLICATIONS OF INADEQUATE FUNDING OF PROJECT-BASED SECTION 8 CONTRACTS

NLHA

If Congress fails to appropriate sufficient funds for fiscal year 2008 to make all contractual section 8 payments, in original and renewal contracts, this failure will be regarded by participants in the section 8 program, other housing programs, other Federal programs, and the capital markets as a default by the United States in its perceived moral obligation. The section 8 contract has already been devalued even without a default by sustained talk of inadequate funds, widespread late payments in 2007, and the inability of HUD to provide 1-year extension contracts because of insufficient funds. A quick and decisive fix may salvage some of the damage.

The following are several specific adverse consequences:

—Lenders will be less willing to make long-term loans for refinancings or purchases of section 8 projects, transactions that help in the rehabilitation and preservation of the projects.

—Investors and syndicators will be less willing to purchase low-income housing tax credits, which are key to the sale and rehabilitation of those projects.

—To the extent the above players continue to participate, it will be on more onerous terms and with a more rigorous selection process to assist only projects that would be viable if section 8 payments terminated.
—Owners who economically can opt out of the section 8 program will plan to do so and will do so at the first opportunity.
—Owners can also stop providing section 8 housing even prior to contract expiration if HUD fails to provide assistance payments.
—Tenants will become anxious about the potential loss of their subsidy and homes. The elderly are particularly susceptible to those concerns. Some will move out and live with their families, thus losing their eligibility for tenant protection vouchers when an owner opts out.
—Owners will select the highest-income tenants they legally can select in order to mitigate the impact of missed or reduced assistance payments.
—The cost of enhanced vouchers and other tenant protection vouchers will soar, or, alternatively, all tenants will not be protected if there is an opt-out.
—There may be an increase in defaults on FHA-insured mortgages covering section 8 projects.
—Affordability use restrictions for projects that have been restructured in the mark-to-market program, which run 30 years, would be converted to permit higher-income tenants to be served.
—Fifty-year affordability use restrictions for LIHPRH projects and existing use restrictions for ELIPHA projects would be terminated and the projects rented to market tenants if HUD cannot provide all the contractual section 8 payments.
—For those projects remaining in the program, there will be an increase in deferred maintenance, depletion of replacement reserves, and little likelihood of obtaining tax credits for rehabilitation.
—Prices realized by HUD in selling foreclosed properties with section 8 subsidies would decline.
—If Congress authorizes the conversion of rent supplement and RAP contracts to section 8, there will be few takers.
—Participation and continued participation in other housing programs involving multi-year subsidies, such as project-based vouchers, tenant-based vouchers, and participation in the 202/811 programs would decline, or the quality of participants would decline.
—The lack of sufficient section 8 funds will also thwart the refinancing of older section 202 projects for the elderly and disabled that have section 8 subsidies. Many of these projects are 20 to 30 years old and can be preserved for another long period with recapitalization and rehabilitation, but lenders and investors would be wary of participating.
—The ability of public housing agencies (PHA) to borrow funds for capital improvements, secured by future appropriations to the capital fund, would be made more difficult and costly.
—Participation in non-housing Federal programs, dependant on ongoing Federal subsidies, would be compromised if participants felt the United States defaulted in the major section 8 program.
—There are broader implications in the capital markets. A default by the United States in any area could send further shock waves to the already shocked markets. Would this be the end of the perceived Federal backing of Fannie Mae and Freddie Mac obligations, and if so, would that increase borrowing costs for home purchases and refinancing? Would the hint of default by the United States raise borrowing costs for Treasury?

ADDITIONAL COMMITTEE QUESTIONS

Senator MURRAY. At this time, if the members have any additional questions, please submit them for inclusion in the record.

[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 RICHARD J. DURBIN

HOUSING DISCRIMINATION STUDY

Question. Historically, how has HUD funded the Housing Discrimination Study? Why is HUD requesting funding for the HDS through the Fair Housing Initiatives Program account?

Answer. Congress has appropriated the funding under the Fair Housing Initiatives Program (FHIP) to support its housing discrimination studies. Beginning in fiscal year 1999, Congress gave HUD the authority to use the FHIP budget to support these studies. To date, HUD has issued three decennial housing discrimination studies. The first in 1977 was funded through non-FHEO program funds.

However, the Housing Discrimination Study (HDS) 2000 study, as appropriated by Congress, was funded through FHIP. Specifically, $7.5 million, $6.0 million, and $7.5 million were appropriated in HUD's fiscal years 1999, 2000 and 2001, budgets respectively. Consistent with the 2000 study, in fiscal year 2009 HUD continues to use this funding methodology in requesting funds for the 2010 HDS study.

HDS is a tool that HUD uses to make or change fair housing policy by providing evidence of housing discrimination in America through a comprehensive research approach that includes using standard testing methods. HDS data helps HUD understand the nature of housing discrimination and the extent of the problem, as well as to identify the groups that are more impacted by acts of housing discrimination. This data helps HUD in determining the most effective strategies in meeting its fair housing mission. HUD has used the results of the housing discrimination studies to design new education and outreach initiatives and in making decisions for fair housing with most activities funded with FHIP resources.

FHIP GRANTS

Question. Last year, how many private fair housing groups applied for FHIP grants, how many received grant funding, and how many were denied? Of those that were denied, what were the reasons for denial?

Answer. In fiscal year 2007, HUD made $18.1 million available under the Fair Housing Initiatives Program (FHIP) Notice of Funding Availability (NOFA). This funding was divided between two initiatives: the Education and Outreach Initiative (EOI) and the Private Enforcement Initiative (PEI). This broke down as $4.1 million for EOI and $14 million for PEI.

EOI provides funding for education and outreach programs to inform the public about their rights and responsibilities under the Fair Housing Act. HUD awarded the $4.1 million under EOI to 32 groups out of 127 groups who applied for grants under EOI. Of the 95 groups who did not receive awards, 4 were ineligible for various reasons, and 36 had scores below the threshold minimum established by the Office of Management and Budget (OMB). The remaining 55 groups had qualifying scores but did not receive funding either because their score was not competitive enough for funding or because a higher scoring group in the same geographic area received funding.

In order to achieve the broadest geographic scope with the Department's education and outreach funding, the Department took into consideration not only the applicant's scores, but also where the applicant was located. This funding strategy allowed HUD to make EOI awards in 32 different States.

In addition, the Department awarded $1 million for a national education and outreach campaign on lending discrimination, which will reach approximately 100 million people throughout the country. The Ad Council reported that one-quarter of the public viewed one of the Department's previous public service announcements.

PEI supports the investigation and resolution of housing discrimination allegations handled by private fair housing organizations. These organizations conduct testing where discrimination is suspected and assist the public in resolving complaints through informal means. When necessary these groups file complaints with HUD and in Federal court on behalf of victims of discrimination.

In fiscal year 2005, at the urging of several fair housing organizations, including the National Fair Housing Alliance, HUD added the Performance-based Component to PEI. Performance-based funding provides 3-year grants to top-performing enforcement organizations. These organizations must have exceptional experience and excellent performance reviews. The multiple-year funding encourages them to take on larger cases of housing discrimination and allows for better strategic planning by the organizations.

Funds to performance-based groups now account for 73 percent of PEI funding. In fiscal year 2007, of the $14 million awarded under PEI, the Department first had to reserve $6.5 million for 25 top-performing groups who received a performance-based grant in fiscal years 2005 and 2006. That left $7.4 million to be awarded in new grants under PEI. The Department received 101 applications for this PEI funding. Of these 101 applicants, 30 were ineligible, and 18 had scores below minimum threshold level established by OMB. Of the remaining 53 applicants qualified for the PEI funding available in 2007, 14 groups received their first year allocation of per-

formance-based funding, and an additional 16 organizations received general PEI grants.

The 2007 PEI grants support fair housing enforcement in 25 States. This includes four States where there is no substantially equivalent State or local fair housing law—-Nevada, Alabama, Mississippi, and Wisconsin.

In addition to enforcement efforts, all PEI recipients are required to use 10 percent of their funding for education and outreach efforts. This leverages an additional $1.4 million in education and outreach dollars on top of the $4.1 million the Department has already awarded under EOI. Education and outreach by PEI groups is particularly effective, because information about fair housing rights is provided by the local group that someone can turn to if those rights are violated.

FHIP FUNDING

Question. Why has HUD requested less funding for FHIP in fiscal year 2009 compared to the fiscal year 1994 funding level, even as housing discrimination persists in this country? Please explain the reasons for this diminished request and how HUD can expect to fulfill the promise of the Fair Housing Act in light of the fact that the number of complaints filed with HUD and its fair housing partners is less than 1 percent of total fair housing violations; a HUD study shows that knowledge of fair housing laws has not improved and is critical to pursuing alleged violations; HUD is unable to fund private fair housing centers who score highly on the agency's own performance scale; and the predatory lending practices highlighted by the recent mortgage crisis disproportionately victimize racial minorities, a class protected under the Fair Housing Act.

Answer. For fiscal year 2009, HUD requested $26 million for Fair Housing Initiatives Program (FHIP). In fiscal year 2009, $19.2 million of this funding will be made available to fair housing organizations through competition, with $6 million going to a study the Nation conducts every decade to measure the level of housing discrimination. All these funds go either directly to enforcement of the Fair Housing Act, education of the public regarding their rights and responsibilities under the Act, or research that will help best target these funds in the future. Moreover, the 2010 Housing Discrimination Study (HDS) will enlist and compensate private fair housing organizations in conducting the proposed research. In the study conducted in 2000, private fair housing groups received approximately 68 percent of the funding set aside for the study. The Department expects the same with the 2010 study. Therefore, the study would provide an estimated $4.08 million to fair housing groups, in addition to the $19.2 million directly allocated to the groups.

HUD does not believe its fiscal year 2009 FHIP budget of $26 million is an inappreciable amount. The requested amount is appropriately balanced to workload needs and continuing and evolving fair housing efforts. We also do not think one can make an appropriate comparison between this year's FHIP budget and one from 1994. First, the funding amounts are roughly the same, and second, the overall amount to fair housing organizations will likely exceed the 1994 level, given the additional amount provided through research testing for HDS 2010.

Though housing discrimination continues to persist, the Department's studies show that HUD, State, and local agencies, and the private fair housing advocacy community, have also done a lot to address the problem. HUD's HDS from 2000 shows that the overall level of discrimination that African-Americans and Hispanics face has declined from 1989 as a result of these efforts. Nevertheless, the Department each year requests a budget that allows HUD, State and local agencies, and private fair housing groups to tackle the evolving problem and the new forms such discrimination takes. The fiscal year 2009 budget, we believe, will meet this challenge.

In addition to the support HUD's annual budget provides for the short-term needs of fair housing groups, this budget also sustains the long-term needs of existing groups through its Performance-Based Component. Private fair housing groups, including the National Fair Housing Alliance, advocated for this component, and HUD began funding it in fiscal year 2005. In fiscal year 2007, this funding now accounted for 73 percent of FHIP's $1.4 million enforcement budget, providing the top-performing groups with 3 years of funding. This allows for broader testing and more systemic investigations by these groups.

FHIP's enforcement budget promotes the activities of the private groups, assists them in bringing in more allegations, and expands fair housing outreach by requiring that enforcement grantees spend 10 percent of their grant on education activities. In fiscal year 2007, this means that the groups will expend approximately $1.4 million marketing their services and educating the housing industry. These lever-

aged funds add to the $4.1 million in the budget allocated strictly for education and outreach grants.

State and local agencies in the Department's Fair Housing Assistance Program (FHAP) are also an integral part in the Nation's fulfillment of its fair housing objectives. These agencies handle approximately 75 percent of the complaints filed in the United States. For fiscal year 2009, HUD has requested $25 million to support fair housing investigations and education by its State and local partners. This funding is tied largely to the complaints these groups receive each year. As complaints to these agencies have increased, the Department has had to increase the amount budgeted for these organizations in order to keep pace.

In fiscal year 2008, HUD and State and local FHAP agencies received more than 10,000 complaints under the Fair Housing Act or a substantially equivalent State or local law. In almost one-third of the complaints, whether at HUD, or at one of the 108 State and local agencies, the agency obtains a positive result for the complainant, either through a finding of discrimination or resolution between the parties. In 2007, conciliation agreements and settlements provided more than $4.76 million in monetary relief to victims of discrimination. This is addition to other relief that agencies obtain for the complainant, such as providing the victim with the desired unit or accommodation, a reduction in the amount of rent or in the interest rate on loans, and retrofits that make a property accessible to persons with disabilities.

In addition to individual complaints, HUD has stepped up its use of Secretary-initiated enforcement in its efforts to proactively address and eliminate housing discrimination. This means if only a small share of the public is filing complaints, the Department is not waiting to receive a formal housing discrimination complaints but is vigorously pursuing cases where there is reason to believe that a person or entity has committed a discriminatory act. In fiscal year 2007, HUD filed 16 Secretary-initiated investigations or complaints. These addressed a variety of issues including widespread race discrimination in the New York rental market; housing providers who excluded families with children; discrimination against African-American and Hispanic mortgage applicants; and religious discrimination among real estate agents. The Department has filed 4 Secretary-initiated complaints or investigations in fiscal year 2008.

To further the Department's mission of ensuring fair housing, HUD has taken a number of strategic initiatives to enhance fair housing enforcement including creating a lending division to conduct fair lending investigations. The division initiates investigations when lending patterns or other information suggests discrimination by a lender, but no individual has come forward to file a complaint. In addition, the Department has reassigned to the division HUD's fair lending oversight of Fannie Mae and Freddie Mac to ensure their underwriting policies and practices comply with fair lending laws. The Department is pursuing six nationwide Secretary-initiated investigations into independent mortgage companies for discrimination based on race or national origin in the making of loans, the pricing of loans, and for policies that have a discriminatory effect.

FAIR HOUSING LAWS

Question. How does HUD plan to increase public awareness of existing fair housing laws?

Answer. As explained in more detail below, HUD uses an array of strategies, including print (e.g. posters, pamphlets and brochures) and electronic media (e.g., internet, television, radio), advertisements in movie theaters, on buses, taxis, public buildings, and meetings, conferences, seminars, etc., to increase public awareness of the Fair Housing Act. In fiscal year 2007, HUD, with its Fair Housing Initiatives Program (FHIP) and Fair Housing Assistance Program (FHAP) partners, conducted fair housing education and outreach programs and activities that reached approximately 50 million people, which is about 16 percent of the population of the United States. Going forward, HUD will continue to use these and other methods to promote its fair housing mission.

—*National Slogan.*—HUD started to consistently use the slogan, "Fair Housing It's Not an Option, It's the Law," in fiscal year 2006. We determined that mixed messages and multiple slogans confused the general public. Therefore, HUD has utilized the same slogan in fiscal years 2007 and 2008 and will continue to use it in fiscal year 2009.

—*Fair Housing Initiatives Program (FHIP)—Education and Outreach Initiative (EOI).*—The FHIP was created under the Housing and Community Development Act of 1987. One of the goals of the FHIP is to educate the public and the housing industry on their rights and responsibilities under the Fair Housing

Act. Each year since 1987, HUD has awarded funds to fair housing organizations under EOI to meet this goal. In fiscal year 2007, approximately $2.6 million was awarded to 32 fair housing organizations to conduct fair housing education and outreach programs and activities. In the fiscal year 2008 HUD budget, Congress appropriated $24 million for the Fair Housing Initiatives Program. For the EOI Awards, $2.8 million has been set aside for EOI awards. In addition, Private Enforcement Initiative-General Component ($19 million) has a requirement that 10 percent of the funds, about $1.9 million, be used for education and outreach activities. HUD has requested additional funds for FHIP in fiscal year 2009.

—*National Media Campaign.*—In April 2002, HUD released a study of fair housing laws, "How Much Do We Know?" The report gauged what the public knew about fair housing laws. The Study found general awareness, with one-half of the public able to correctly identify six or more of the eight scenarios that described illegal conduct. However, while many persons were conscious of fair housing protections, 83 percent did nothing about it when confronted with an act of housing discrimination. Following this awareness study, HUD, in fiscal year 2003, developed a national media campaign to educate the public on fair housing. Since 2003, HUD has awarded funds for a national media campaign. We believe that a national media campaign is an effective mean of promoting the fair housing because it provides a consistent message and it provides information to the entire country. Our national campaigns have been particularly effective. For example:

—In fiscal year 2006, HUD launched a national campaign to inform individuals who were displaced by Hurricanes Katrina and Rita of their fair housing rights and how to file housing discrimination complaints. The message of the public service announcement (PSA) was, "the storm isn't over." This PSA encouraged hurricane evacuees and other members of the public to call HUD's housing discrimination hotline if they suspected they had been denied housing for discriminatory reasons.

—In fiscal year 2007, HUD awarded a grant to Pacific News Service, a not-for-profit organization with specialization in radio, television, and print media for minority and ethnic populations, to provide an education and outreach program on fair lending, to education the public of the fair lending requirements of the Fair Housing Act. Pacific News Service partnered with the National Community Reinvestment Coalition (NCRC), a Fair Housing Initiatives Program recipient and a nationally recognized non-profit organization with expertise in fair lending issues. A PSA with actor Dennis Haysbert as the fair lending spokesperson, has been distributed to all HUD Fair Housing Assistance Program and Fair Housing Initiatives Program partners and to approximately 1,800 national cable and commercial television networks for airing. The PSA is available in both English and Spanish and it is closed caption. Additionally, fair lending posters have been produced in English, Spanish, Russian, Arabic, Chinese, Vietnamese, and Korean. The posters have been distributed to our Fair Housing Initiatives Program and Fair Housing Assistance Program partners. They will also be available through HUD/Fair Lending Web site.

—In association with the fair lending media campaign, NCRC will conduct 12 fair lending forums in the following cities: Atlanta, Georgia; Boston, Massachusetts; Charlotte, North Carolina; Chicago, Illinois; Columbus, Ohio; Denver, Colorado; El Paso, Texas; Fresno, California; Philadelphia, Pennsylvania; Washington, DC; Cleveland, Ohio; and Detroit, Michigan. These 12 cities were selected because they were identified as cities with high foreclosure rates. The first forum begins in Atlanta, GA, on May 17, and the last 1 forum is scheduled for Detroit, MI, on September 20. We estimate that the lending forums will reach approximately 6,000 households and will result in an increase of public knowledge on the fair lending requirements of the Fair Housing Act, how to avoid predatory loans, and what options are available to homeowners facing foreclosures. In addition to the NCRC staff, the forums will feature HUD staff, and HUD approved HUD housing counseling agencies.

—In fiscal year 2008, HUD designated $1 million of the Fair Housing Initiatives Program appropriation for a national media campaign. The funds will be awarded through the FHIP NOFA again to address discriminatory and predatory lending. Consistent with is strategies since 2003, HUD, in its fiscal year 2009 proposed budget, requested $1 million for a national media campaign.

—*Media Activities.*—In fiscal year 2007, as detailed in HUD's fiscal year 2007 Fair Housing Annual Report to Congress, HUD undertook the following media activities to increase the public's knowledge of fair housing laws:

—From April 6, through 12, 2007 and October 26, through November 2, 2007, HUD sponsored two fair housing advertisements that appeared in over 100 movie theaters, on more than 1,000 screens throughout the country. HUD spent approximately $17,000 in its movie theater advertisements that reached approximately 1.5 million movie goers. This is at a cost of about $0.011 per person. This marketing technique is a cost effective method of informing the public about the Fair Housing Act and HUD's toll free numbers. During June 2008, HUD will place the lending PSA, described above, in movie theaters across the Nation. Because HUD believes the use of the movie theaters is a cost effective method to reach large number of people, it will continue to utilize this source of marketing during fiscal year 2009.

—Samples of news articles and interviews follow:

As a result of HUD's outreach efforts, the April 15, 2007, issue of Parade magazine contained an article on fair housing. The article advised readers that housing discrimination is illegal and provided several examples of unlawful discrimination, such as charging higher rent to tenants based on race or religion or refusing to accept families with children. The article also provided HUD's housing discrimination hotline, 1–800–669–9777. Parade has a circulation of more than 35.5 million.

On September 28, 2007, Gannett News Service ran a featured article on fair housing. USA Today had multiple stories, including a prominent main story that included quotes from Assistant Secretary Kim Kendrick. The story was largely about HUD's education and outreach efforts led to increased fair housing complaints. The estimated circulation for Gannett Newspapers is 7.2 million readers. For complete details on the Gannett News Service on "Closed Doors: Housing Discrimination Complaints on the rise across the country," please go to: http://gns.gannettonline.com/apps/pbcs.dll/section?Category=HOUSING

On July 16, 2007, Assistant Secretary Kim Kendrick was featured on "The Federal News Drive" with Mike Causey and Jane Norris on Federal News Radio. Ms. Kendrick discussed the fair lending provisions of the Fair Housing Act.

On February 17, 2007, the CNN program Open House aired a segment on housing discrimination. The segment featured an interview with Nannatte Bishop, an African-American woman who filed a complaint with HUD alleging that Fifth Third Bank denied her application for mortgage loan because of her race. Approximately 665,000 viewers watched this episode.

On a monthly basis, starting with the June 2006 through June 2007, Essence Magazine featured an article on 12 steps of the home buying process. Assistant Secretary Kim Kendrick served as one of 12 members of an advisory board throughout the 12 steps. The name of the Office of Fair Housing and Equal Opportunity appeared in all 12 issues of Essence. Assistant Secretary Kendrick was featured in three steps. For instance, Step 3: Learn About the Mortgage Industry, included information on the home buying process and five ways individuals can protect themselves from unfair lending practices and predatory lenders. On a monthly basis, Assistant Secretary Kendrick provided guidance to each of the three families. Essence has a monthly circulation of approximately 1,066,000.

—One way to raise public awareness of fair housing laws is for HUD to publicize cases that result in significant housing or monetary relief on its Web site and through press releases. By publicly announcing all of its charges and major conciliations, we hope to re-enforce the public's trust of HUD's fair housing enforcement mission. FHEO's Web site statistics show that it receives from 4,000 to 20,000 hits per day.

—Letters to the editors from Assistant Secretary Kendrick appeared in the Sunday Los Angeles Times (approximately 1.2 million readers) and Times Picayune (approximately 262,000 readers).

—Fair Housing Op-Ed. During April 2007, an op-ed piece written by HUD appeared in four African-American newspapers. The op-ed appeared in the Pittsburgh Courier, Dallas Examiner, Louisville Defender, and East of the River newspaper, which together reach more than 60,000 readers.

—Assistant Secretary Kim Kendrick appeared in an article in the Federal Times which has an estimated circulation of 38,000. In the article, Assistant Secretary Kendrick discussed her role as the Administration's top enforcer of the Federal fair housing laws.

—*Fair Housing Month—2007, 2008, and 2009.*—During the April 2007 Fair Housing Month, HUD and its FHIP and FHAP partners sponsored and participated

in over 250 events. Many of these events will be duplicated in fiscal year 2008 and fiscal year 2009. Some of the more innovative events include:

—Charleston Human Rights Commission and the Huntington Human Relations Commission—both FHAP funded agencies—erected several Fair Housing Month billboards in their cities. Also, the Charleston, WV, Human Rights Commission placed advertisements on the tops of taxi cabs to raise awareness of fair housing. It is estimated that approximately 51,000 people may have seen these taxi advertisements.

—For the second year in a row, Philadelphia skyline was lit by HUD's Fair Housing Month slogan as it scrolled around the top of the 28-story building of the Philadelphia Energy Company (PECO). PECO displayed the slogan on the evenings of April 13, 14, 15, and 16. In bright letters that are 38 feet high, Fair Housing: It's Not an Option; It's the Law is scrolled around all four sides of the downtown skyscraper.

—During the Fair Housing Month 2007, the LA Times and San Diego Union Tribune each ran fair housing ads four different times in their newspapers. Displaying HUD's Fair Housing message, "Fair Housing: It's Not an Option; It's the Law" for free.

Additional information about HUD's 2007 Fair Housing Month events may be found on the following website: http://www.hud.gov/offices/fheo/FHMonth/2007FHM-Events.pdf

—*Disaster Response.*—HUD strongly believes that it has a responsibility to ensure that persons affected by disaster are not victimized when searching for a new place to call home. As a measure of prevention and pro-action, FHEO collaborated with a group of Fair Housing Assistance Program (FHAP) and Fair Housing Initiative Program (FHIP) agencies and other fair housing professionals to develop a fair housing toolkit for emergency preparedness. Toward this end, FHEO engaged Emergency Management and Special Needs Consultants to facilitate roundtable discussions to define the role of fair housing in disaster preparedness planning identify the challenges that fair housing professionals face in responding to disaster situations, develop disaster-related education and outreach initiatives, develop communication strategies, and coordinate enforcement efforts. The final result was a "Fair Housing Disaster Toolkit for Emergency Preparedness" for fair housing professionals. The toolkit was issued in July 2007 and was distributed to over 800 participants of HUD's 2006 National Fair Housing Policy Conference. A copy of the toolkit continues to be available through the following website: http://www.hud.gov/offices/fheo/library/FHEO-DisasterToolkit.pdf

—*Fair Housing Exhibit Booth.*—The purpose of the Fair Housing Exhibit Booth is to provide fair housing information to the general public, housing, real estate, lending, insurance, and civil rights professionals at their national conferences and meetings. In fiscal year 2007, HUD operated the Fair Housing Exhibit Booth at 12 events throughout the country, including national conferences held by the National Association for the Advancement of Colored People, the National Association of Home Builders, the National Council of La Raza, the National Bar Association, National Black Family Reunion, and the Congressional Black Caucus. It is estimated that approximately 500,000 people were reached through HUD's Fair Housing Exhibit Booth.

—*Participation in Conferences and Events.*—Another way that HUD increases the public's awareness of the Fair Housing Act is by participating in conferences and other events held by HUD offices, housing industry groups, and fair housing groups throughout the Nation. For example, during fiscal year 2007, staff has participated in the following conferences:

—Education Conference and Lone Star Expo sponsored by the Texas Apartment Association in Houston, TX;

—National Community Reinvestment Coalition Conference, Washington, DC;

—Housing and Development Law Institute's Conference, Washington, DC; and

—National Coalition for Asian and Pacific Americans Community Development Conference, Honolulu, HI.

Just recently, from April 8, through 11, 2008, HUD held its 2008 National Fair Housing Policy Conference in Atlanta, GA, to commemorate the 40th anniversary of the Fair Housing Act. Approximately 1,000 people attended the Conference. The next national fair housing policy conference will be held in June 2010.

—*Accessibility First.*—In January 2003, HUD launched Fair Housing Accessibility FIRST, a FHIP-funded program that provides training and technical assistance on the Fair Housing Act's accessibility requirements to architects, builders, developers, and other others involved in the design and construction of multifamily housing. Approximately 7,500 people have attended the training since

2003. In fiscal year 2007, when asked the number of multifamily housing units on which the attendees were working, the attendees reported a total of 329,543 multifamily units in which they were assisting with the development, design, or construction. As a result of the training, we expect these units will be built in compliance with the accessibility standards of the Fair Housing Act.

—*40th Anniversary of the Fair Housing Act.*—The Assistant Secretary and FHEO senior staff were interviewed CNN Radio, with over 2,000 worldwide affiliates; CNN Espaňol Radio (with over 9 domestic and 20 internationals bureaus); NPR—All Things Considered (with 11 million listeners), and Fox News Atlanta. During the separate interviews, Assistant Secretary Kendrick and staff discussed the 40th anniversary of the Fair Housing Act and the Reverend Dr. Martin Luther King, Jr.'s dream of an "open society."

—*Fair Housing Education in America.*—On April 16, 2008, HUD launched a new initiative, "Fair Housing Education in America Day." This national education project is designed for 4th through 6th grade students for them to hear from fair housing experts who present lessons on fair housing requirements. It gives teachers, parents, and their children a basic understanding of the Fair Housing Act. The goal of this initiative is to start the conversation about fair housing opportunities at a young age. It's critically important to teach future generations of renters and home buyers about their rights under fair housing laws. Over 50 schools nation wide registered to participate in this inaugural event. Additional information on Fair Housing Education in America Day may be obtained through the following website: http://www.hud.gov/offices/fheo/fheducationday.cfm. As this Initiative was successful, HUD plans to continue this Initiative on the 3rd Wednesday of April for fiscal years 2009 and 2010.

HOUSING DISCRIMINATION

Question. What concrete steps will HUD be taking to increase the percentage of persons who file complaints in response to the belief that they have been victims of housing discrimination?

Answer. HUD's fair housing mission is to eradicate housing discrimination. HUD plays several roles in this mission: (1) to increase public awareness of the Fair Housing Act; (2) to educate housing providers on their rights and responsibilities under the Fair Housing Act to reduce the number of occurrences of housing discrimination; and (3) to enforce the provisions of the Fair Housing Act.

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—In fiscal year 2007, FIRST training sessions were held in Birmingham, AL; Tucson, AZ; San Jose, CA; Washington, DC; Atlanta, GA; Boise, ID; Chicago, IL; Frankfort, KY; Lake Charles, LA; New Orleans, LA; Portland, ME; Biloxi, MS; Jackson, MS; Bismarck, ND; Buffalo, NY; Cleveland, OH; Eugene, OR; Philadelphia, PA; Corpus Christi, TX; Houston, TX; and San Antonio, TX. In total, FIRST conducted 22 training sessions and trained 1,351 persons.

—HUD continues to fund the FIRST program at $800,000 in fiscal year 2008 and has requested $800,000 in its fiscal year 2009 budget to continue this program.

—In fiscal year 2007, HUD and the Texas Apartment Association (TAA) signed a Memorandum of Understanding (MOU) pledging to work together to conduct fair housing training and outreach to rental housing providers and renters in the State of Texas. As part of the MOU, HUD's FIRST program has conducted two training sessions on the accessibility requirements of the Fair Housing Act to TAA members. This MOU is still in effect.

—In fiscal year 2008, HUD plans to negotiate an MOU with the National League of Cities to collaborate to increase inclusive and diverse communities and strengthening financial education at the local levels. One of the goals of the MOU is to increase understanding of the Fair Housing Act and how fair housing is good business for local communities when dealing with unfair lending and predatory lending practices. It is anticipated that the MOU will be signed by the end of August 2008.

Complaint filing in fiscal year 2006 exceeded 10,000 for the first time since HUD began to gather statistics. It is likely that the increase was a direct result of these and other education and outreach programs and activities. HUD expects that the number of complaints will continue to grow as it carries forth education and outreach activities, but at the same time acts of housing discrimination may decrease as a result of HUD's partnerships with housing industry groups and associations.

HOPWA

Question. Why is HUD requesting the same level of funding for fiscal year 2009 as in fiscal year 2008 for the HOPWA program, even as demand for housing services among persons living with HIV/AIDS increases?

The $14 million increase from fiscal year 2007 to fiscal year 2008 will help HOPWA city and State grantees expand the number of clients assisted by an estimated 3,500 households, from 67,000 to 70,500. The administration's fiscal year 2009 request proposes to protect this increase in light of financial constraints which represents a high priority over other pressing needs. HOPWA is a highly effective and targeted program, and resources create and maintain stable housing for very low-income persons and dramatically improve their access to the available healthcare and HIV treatments.

HOPWA FUNDING

Question. How many jurisdictions will be funded with fiscal year 2008 dollars, both nationwide and specifically in IL? How many jurisdictions is HUD projecting to fund with fiscal year 2009 dollars, both nationwide and specifically in IL? How will the change in the number of jurisdictions affect the individual levels of funding for jurisdictions?

Answer. The HOPWA program targets housing resources to States and cities to address pressing needs for a vulnerable population, low-income persons with HIV/AIDS and their families. Ninety percent of HOPWA funding is distributed by formula to qualifying States and metropolitan areas, and the remaining grant funds are distributed through the competitive grant process.

Formula Grants.—The HOPWA formula grant allocations, which entail 90 percent of the program, are based on AIDS data provided annually by the Centers for Disease Control and Prevention (CDC). For fiscal year 2008, the formula portion of the HOPWA program serves 127 jurisdictions: 40 States, 1 county, and 86 cities. Furthermore, four new areas qualified for the fiscal year 2008 allocation: Bakersfield (CA), Palm Bay (FL), Tulsa (OK), and the State of Nebraska.

Fiscal year 2008 grantees in Illinois are the State of Illinois and the Chicago-Naperville-Joliet Metropolitan Statistical Area (MSA) Division. The city of St. Louis, MO also provides HOPWA assistance in Illinois parts of it's MSA.

Although the Department has not yet received CDC data for 2008, the Department estimates that several new jurisdictions will become eligible for HOPWA formula funding for fiscal year 2009. The eligibility of jurisdictions is dependent up the application of CDC data and the definitions of metropolitan statistical areas. We cannot predict at this time how many, if any, of the new jurisdictions will be in Illinois.

The addition of new formula areas does not have much of an affect on funding levels overall as most of the new areas were already included as part of the prior year allocations to their State. Of the 4 new areas in fiscal year 2008, the State of Nebraska was the only area not previously part of the formula programs, and received $306,000, a net impact of one-tenth of 1 percent on the overall formula.

Competitive Grants.—The HOPWA program's competitive grants have a 3-year duration and can be renewed if successful in providing permanent supportive housing. Two grantees in Illinois received awards during the fiscal year 2005 competition grant cycle and have indicated their interest in renewing their grants during fiscal year 2008. The Department is currently reviewing these and would expect to make selection in the next few months in accordance with grant renewal procedures. Additionally, there are five permanent housing grants in Illinois that would be eligible for renewal in fiscal year 2009, as these grants are now operating under 3-year awards made in the fiscal year 2006 grant selection.

MOVING TO WORK

Question. Members of the Illinois congressional delegation sent you a letter on December 11, 2007, requesting a minimum 5-year extension to the Chicago Housing Authority's 10-year Moving to Work agreement with HUD. Please explain why HUD has not responded to the December 11, 2007 letter, as of March 25, 2008.

Answer. The Department responded to the letter on February 19, 2008. Please see letter below.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT,
OFFICE OF CONGRESSIONAL AND INTERGOVERNMENTAL RELATIONS,
Washington, DC, February 19, 2008.

The Honorable RICHARD J. DURBIN,
United States Senate,
Washington, DC 20510–1304.

DEAR SENATOR DURBIN: On behalf of Secretary Alphonse Jackson, thank you for your letter of December 11, 2007, requesting an extension of the Chicago Housing Authority's (CHA) Moving to Work Demonstration (MTW) agreement, which will expire in 2010. Since the demonstration was authorized in 1996, the Department of Housing and Urban Development has worked closely with the participants in the MTW demonstration to provide the flexibility to design and test various approaches for providing and administering housing assistance to achieve the three objectives outlined in the authorizing statute.

Over the last year and a half, the Department has collaborated with the MTW agencies, including CHA, to develop a standard Amended and Restated MTW Agreement (Restated Agreement) for all MTW agencies. This Restated Agreement will ensure both that the flexibility that MTW gives is retained and that the demonstration provides the measurable outcomes as required for those MTW agencies extended by the 2006 Appropriations Act. Should Congress choose to expand the number of agencies eligible to participate in MTW, the Restated Agreement would better enable the Department to manage the larger number of agencies taking advantage of MTW flexibilities.

The final version of the Restated MTW Agreement was mailed to CHA and the other MTW agencies on January 4, 2008, and agencies have 120 days to execute the agreement. Under the Restated MTW Agreement, the MTW demonstration will continue until 2018, which will allow the Department to fully evaluate the impact of initiatives developed under the demonstration.

Thank you for your interest in the Department's programs. If I can be of further assistance, please let me know.

MARK A. STUDDERT,
General Deputy Assistant Secretary.

MOVING TO WORK AGREEMENT

Question. According to CHA, HUD has informally agreed to extend the agreement in meetings. Can you confirm this understanding and provide a timeline for formally extending the agreement?

Answer. The final version of the standard Moving-to-Work (MTW) Agreement was mailed to the Chicago Housing Authority (CHA) and the other MTW agencies on January 4, 2008, and agencies have 120 days to execute the agreement. Under the standard MTW Agreement, the MTW demonstration will continue until 2018, which will allow the Department to fully evaluate the impact of initiatives developed under the demonstration. CHA has advised us that it is considering the Agreement and will act on it shortly.

HOMELESSNESS

Question. How does HUD expect to meet the administration's 2001 goal of ending chronic homelessness in 10 years given its funding request for fiscal year 2009,

which is inadequate to cover the cost of permanent housing renewals let alone fund the addition of new projects?

Answer. HUD originally set forth a goal of ending chronic homelessness by 2012. As we and the U.S. Interagency Council on Homelessness worked with communities across the Nation, city after city became engaged in taking on this challenge to end chronic homelessness. Not all communities implemented their plan in the same year. To secure political will and resources required more time for some communities than it did for others. Every year additional communities commit to the 10 year goal. Significantly, there is Federal, State and local commitment to achieve this bold goal. Communities are tracking the number of chronically homeless so that they can measure their progress. Communities are also securing Federal, State and local government and private resources to develop housing for this population. As a result of these efforts, nationally we saw an 11.5 percent reduction in chronic homelessness between 2005 and 2006. The 2007 figure is scheduled to be released in June and we expect to see further reductions.

HUD has employed creative incentives to encourage grantees across the country to use the limited HUD funds available for new units to specifically target the chronically homeless and thereby help meet the administration's goal. The Department has designated a portion of the competitive funds to be awarded to Continuums of Care (CoC) that set as their first priority, a permanent supportive housing project for the chronically homeless. In addition, HUD has created a reallocation process within the competition that allows CoCs to negotiate the elimination or reduction of grants that either no longer serve the need of the homeless in that community or have found alternative subsidy. They are thereby enabled to use the newly available funds to create additional new permanent support housing programs. These incentives have an incremental but cumulative impact on these production goals.

Finally it is important to note that while we continue to make progress in ending chronic homelessness, we also continue to provide funding for renewal projects. HUD estimates that the 2009 homeless assistance request is sufficient to fully fund all permanent housing renewals and to provide a limited amount of funds to develop new projects to help end chronic homelessness.

PERMANENT SUPPORTIVE HOUSING

Question. Please provide a status update on how close the agency is to the benchmark of 150,000 units of permanent supportive housing.

Answer. Former HUD Secretary Mel Martinez set a goal that as a Nation we create 150,000 permanent supportive housing units for chronically homeless individuals. The definition of a chronically homeless individual is a single, unaccompanied person with a disabling condition who has either been continuously homeless for more than a year or who has experienced at least four episodes of homelessness in 3 years.

While it is a challenging goal, HUD has instituted several incentives to meet it, such as providing extra funding for Continuums of Care that set as their first priority for funding a permanent supportive housing project for the chronically homeless. This incentive has led to a tremendous increase in the number of units for this target population.

At the end of 2006, Continuums of Care reported that about 40,000 new permanent supportive units were in place for the chronically homeless. In 2007, HUD funded approximately 4,000 additional permanent supportive housing units for this same population. These units do not include thousands of transitional housing units for the homeless created with HUD funds since 2002. These units also do not include funds awarded under the Emergency Shelter Grants program.

Moreover, in 2008, Congress appropriated the HUD VASH (HUD VA Supportive Housing) program, which will create 10,000 more units for homeless veterans, many of whom are chronically homeless. Finally, the President has requested $75 million in the fiscal year 2009 budget which would provide for approximately 10,000 additional HUD VASH vouchers for homeless veterans.

Question. How does HUD plan to reverse the trend of fewer new units? What plans are there to ensure HUD meets the 10-year goal of establishing 150,000 units of permanent supportive housing?

Answer. The percentage of funds needed to operate renewal projects increases each year. The renewal burden for fiscal year 2006 was 84 percent of funds awarded, and in fiscal year 2007 the renewal burden was 86 percent of funds awarded. However, the administration has requested and Congress has appropriated increased funding since 2001 for HUD's homeless programs, which has allowed HUD to continue to increase the number of new units created each year. With continuing

appropriations increases, HUD will be able to continue to create even more new units of permanent supportive housing as well as transitional housing to help homeless families and individuals move to greater self-sufficiency.

In order to meet the ambitious goal of establishing 150,000 new units of permanent supportive housing for chronically homeless persons that are to be developed by HUD and our State and local partners, HUD focuses on this population in the (CoC) application by awarding "bonus" funds to communities that propose new permanent housing for chronically homeless persons. In addition, HUD awards more points to communities that demonstrate an emphasis on creating new housing units.

However, HUD is not working alone to meet this goal. In the annual (CoC) application, HUD provides incentives for State and local governments and the private sector to provide resources to develop permanent housing for the chronically homeless and for other homeless populations. Moreover, the Interagency Council on Homelessness has been working to help communities create local 10-year plans to end chronic homelessness. While many of the units created under these plans are funded by HUD, States as well as local communities are working to find additional funding sources to create new units of permanent supportive housing.

RAPID RE-HOUSING

Question. Does HUD plan to continue the rapid re-housing demonstration funded by Congress in fiscal year 2008? If not, please explain.

Answer. The Rapid Re-housing initiative was funded in 2008 as a one-time only demonstration program. The administration has not requested additional funds for this demonstration in fiscal year 2009. Included in the appropriation is funding to conduct a rigorous evaluation to determine the effectiveness of different local programs participating in the demonstration. The grant awards will be made later this calendar year. Once awarded, selected demonstration sites will begin collecting data on the homeless families. Our review of the eventual study results should provide very useful insights as to which interventions are actually effective. These findings will help inform future programming and use of limited resources.

REDUCING HOMELESSNESS

Question. What is HUD's strategy for reducing the number of homeless families?

Answer. HUD's performance objective related to homelessness underscores our commitment to serving homeless families. It is to "End chronic homelessness and move homeless families and individuals to permanent housing" (emphasis added). We require each community to annually enumerate and report to HUD on the size of their homeless family population. To address this local established need and to achieve HUD's performance objective, HUD provides each year significant funding to communities to assist their homeless families. Approximately half of all persons assisted by HUD homeless programs are persons in homeless families.

With the recent expansion of the HUD VA Supportive Housing (HUD–VASH) Program to sites across the Nation and the demographics of Desert Storm era veterans, it is anticipated that many homeless military families will be housed through this specialized HUD section 8 program.

The new $25 million Rapid Re-housing for homeless families demonstration initiative will also provide valuable insights into how communities and we as a Nation can most effectively help homeless families.

HUD's commitment to improve its programming for homeless families is reflected in the Department's efforts to better understand both the particular needs of homeless families today and how to best serve them. Several studies are underway or planned to help inform HUD and the Nation on this important subject. For instance, a study to be conducted by HUD's Office of Policy Development and Research entitled "The Impact of Various Housing and Service Interventions on Homeless Families" is in the early stages of being conducted. Once completed, the results will help inform future homeless family housing and service policies.

HOMELESS ASSISTANCE FUNDING

Question. What percentage of homeless assistance funding is currently going directly to families?

Answer. Data on homelessness provided by each community to HUD indicate that approximately 40 percent of all homeless persons are members of homeless families. Significantly, just over 40 percent of all of HUD's competitive homeless funds benefit homeless families. As such, HUD resources are well aligned with meeting the needs of homeless families.

FAMILY UNIFICATION PROGRAM

Question. How and when will the Family Unification Program vouchers be issued?

Answer. We expect the Family Unification Program vouchers to be issued between September and October 2008. HUD staff is currently working on the Notice of Funding Availability, which will explain the application procedures.

HUD–VA SUPPORTIVE HOUSING VOUCHERS

Question. How and when will the HUD-Veterans Affairs Supportive Housing vouchers be issued?

Answer. We expect to provide funding to housing authorities by the first week of May 2008. The actual issuance of the vouchers will depend on the referral of homeless veterans to housing authorities by the U.S. Department of Veterans Affairs. Eligibility for the program is determined by the Department of Veterans Affairs and not the housing authorities.

QUESTIONS SUBMITTED BY SENATOR ARLEN SPECTER

MOVING TO WORK

Question. Secretary Jackson, I understand that the Department has already informed the Philadelphia Housing Authority that it will not extend its successful Moving to Work Demonstration program beyond March 31, 2008, under similar terms and conditions. Is it true that the Department has granted similar extensions 30 times since 2000 and never denied a request for an MTW extension until now?

Answer. On February 8, 2002, the Philadelphia Housing Authority executed a Moving-to-Work (MTW) Agreement with the Department that expired by its own terms on March 31, 2008. Starting in the first quarter of 2006, HUD began the process of standardizing the MTW agreements it had with the housing authorities participating in the MTW program. In November 2005, Congress passed legislation that mandated extensions of current MTW agreements that would otherwise expire by September 30, 2006, and also called for data collection "so that the effect of Moving-to-Work policy changes on residents can be measured." (section 320(b) of the Transportation, Treasury, Housing and Urban Development, the Judiciary, the District of Columbia and Independent Agencies Appropriations Act of 2006) (Pub. L. No. 109–115, 119 Stat. 2396 (Nov. 30, 2005)) ("section 320(b)).

The Department's development of standardized agreements was consistent with this Congressional mandate: one of the Department's principal objectives in developing the standardized agreement was to improve and reinforce requirements for tracking, reporting, and evaluating the effectiveness of the MTW program in achieving the goals of the MTW legislation. In addition, through the standardized MTW agreement, the Department sought to clarify the submission and approval processes, and to develop standard operating procedures for the Department's interaction with all MTW agencies under the program.

The Department has extended MTW Agencies under their current terms in 15 instances over the past 3 years, all involving PHAs in a different position than Philadelphia Housing Authority. The Department extended 13 MTW Agreements during the first 9 months of 2006 under the mandate of section 320(b). Because the Philadelphia Housing Authority's MTW Agreement did not expire during the period covered by section 320(b), the Philadelphia Housing Authority does not fall within the category of PHAs that were to receive this statutorily mandated extension.

In addition to the 13 PHAs covered by the 2006 extension provision, the Department has extended MTW agreements for two other housing agencies since September 30, 2006. Each of the PHAs in those instances is in a different position than Philadelphia Housing Authority, as each of those extensions was granted before the Department finalized and adopted the new, standardized MTW agreement. In December 2006, the Department extended the MTW for Pittsburgh, Pennsylvania for 3 years to December 31, 2009. The Department also extended the MTW agreement for Minneapolis, Minnesota for a 7-month period to allow for completion of the standardized agreement. The Minneapolis Housing Authority has now signed the new, standardized agreement. The Department has offered to execute the standardized agreement with PHA, as with any other participating housing authority, but Philadelphia Housing Authority has refused that offer.

MOVING TO WORK EXTENSION

Question. Without the MTW extension, Philadelphia Housing Authority understands that as of April 1, 2008, it will no longer be eligible to receive as much as

$50 million in Federal assistance, including approximately $25 million in section 8/housing choice voucher funds. Is that your understanding? Can you assure me that the Philadelphia Housing Authority will continue to receive the same allocation of Federal funds if its MTW designation is not extended?

Answer. The Department does not agree that the Philadelphia Housing Authority would lose $50 million in funding because of this transition. The Department has made a comparison of the Philadelphia Housing Authority's funding under both the MTW agreement and current regulations and can find no basis for such a claim. Indeed, even the legal declarations made by the Philadelphia Housing Authority as part of its lawsuit against the Department only reference the $13,050,000 associated with the diversion of over 2,000 units worth of Housing Choice Voucher funding (MTW Activity Vouchers) for other purposes in support of the Philadelphia Housing Authority's public housing program. Even as the Philadelphia Housing Authority makes the transition to become a traditional non-MTW housing authority, it does not automatically lose this funding. Rather, the $13 million would be applied towards the Philadelphia Housing Authority's traditional Housing Choice Voucher Program, allowing it to provide 2,000 units of much-needed housing assistance to the low-income residents of Philadelphia.

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—In fiscal year 2003, HUD signed an MOU with representatives from the National Association of Realtors, the National Association of Real Estate Brokers, the National Association of Hispanic Real Estate Professionals, and the National Association of Asian American Real Estate Professionals to work together to increase minority homeownership and address housing discrimination. As part of the MOU, the real estate associations provide fair housing information to their members and partner with HUD and private fair housing organizations to distribute fair housing information to minority communities. This MOU is still in effect.

—In January 2003, HUD launched Fair Housing Accessibility FIRST (Fair Housing Instruction, Resources, Support, Technical Guidance), a FHIP-funded program that provides training and technical guidance on the Fair Housing Act's accessibility requirements to architects, builders, developers, and others involved in the design and construction of multifamily housing. FIRST consists of a comprehensive training curriculum that is accredited by the American Institute of Architects and various local professional groups.

—In fiscal year 2007, FIRST training sessions were held in Birmingham, AL; Tucson, AZ; San Jose, CA; Washington, DC; Atlanta, GA; Boise, ID; Chicago, IL; Frankfort, KY; Lake Charles, LA; New Orleans, LA; Portland, ME; Biloxi, MS; Jackson, MS; Bismarck, ND; Buffalo, NY; Cleveland, OH; Eugene, OR; Philadelphia, PA; Corpus Christi, TX; Houston, TX; and San Antonio, TX. In total, FIRST conducted 22 training sessions and trained 1,351 persons.

—HUD continues to fund the FIRST program at $800,000 in fiscal year 2008 and has requested $800,000 in its fiscal year 2009 budget to continue this program.

—In fiscal year 2007, HUD and the Texas Apartment Association (TAA) signed a Memorandum of Understanding (MOU) pledging to work together to conduct fair housing training and outreach to rental housing providers and renters in the State of Texas. As part of the MOU, HUD's FIRST program has conducted two training sessions on the accessibility requirements of the Fair Housing Act to TAA members. This MOU is still in effect.

—In fiscal year 2008, HUD plans to negotiate an MOU with the National League of Cities to collaborate to increase inclusive and diverse communities and strengthening financial education at the local levels. One of the goals of the MOU is to increase understanding of the Fair Housing Act and how fair housing is good business for local communities when dealing with unfair lending and predatory lending practices. It is anticipated that the MOU will be signed by the end of August 2008.

Complaint filing in fiscal year 2006 exceeded 10,000 for the first time since HUD began to gather statistics. It is likely that the increase was a direct result of these and other education and outreach programs and activities. HUD expects that the number of complaints will continue to grow as it carries forth education and outreach activities, but at the same time acts of housing discrimination may decrease as a result of HUD's partnerships with housing industry groups and associations.

SUBCOMMITTEE RECESS

Senator MURRAY. We will recess subject to the call of the Chair.

[Whereupon, at 11:17 a.m., Thursday, March 13, the subcommittee was recessed, to reconvene subject to the call of the Chair.]