

**WRITTEN STATEMENT OF
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**BEFORE THE
SUBCOMMITTEE ON HOUSING AND TRANSPORTATION
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE**

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OVERVIEW

Chairman Allard, Ranking Member Reed, Distinguished Members of the Subcommittee:

Thank you for the invitation to join you this morning. I am honored to outline the Fiscal Year (FY) 2006 Budget proposed by President Bush for the U.S. Department of Housing and Urban Development (HUD).

Over the past four years, HUD has expanded homeownership, increased access to affordable housing, fought housing discrimination, tackled homelessness, and made a new commitment to serving society's most vulnerable. The Department has implemented innovative solutions to address our nation's housing needs, and our results have been impressive and measurable.

HUD's \$28.5 billion in new net budget authority for FY 2006 seeks to build on our success and lend a compassionate hand to individuals in need, while also using taxpayer money more wisely and reforming programs in need of repair. The HUD budget proposed by the President reflects this intent through three broad, yet focused strategic goals: promoting economic opportunity and ownership, serving society's most vulnerable, and making government more effective.

In his February 2 State of the Union Address, the President underscored the need to restrain spending in order to sustain our economic prosperity. As part of this restraint, it is important that total discretionary and non-security spending be held to levels proposed in the FY 2006 Budget. The budget savings and reforms in the Budget are important components of achieving the President's goal of cutting the budget deficit in half by 2009 and we urge the Congress to support these reforms. The FY 2006 Budget includes more than 150 reductions, reforms, and terminations in non-defense discretionary programs, of which eight affect HUD programs. The Department wants to work with the Congress to achieve these savings.

The funding reductions, reforms, and terminations contained within HUD's FY 2006 budget represent difficult choices in an era of significantly diminished resources for all domestic discretionary programs. These decisions were made thoughtfully, following an analysis of each program's current funding levels and an assessment of future needs.

Promoting Economic Opportunity and Ownership

The President's vision of an "ownership society" has been a central theme of his Administration. Ownership – and homeownership in particular – is the key to financial independence, the accumulation of wealth, and stronger, healthier communities.

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

Homeownership's potential to create wealth is impressive, too. For the vast majority of families, the purchase of a home represents the path to prosperity. A home

is the largest purchase most Americans will ever make – a tangible asset that builds equity, good credit, borrowing power, and overall wealth.

In 2004, more Americans achieved the dream of homeownership than at any time in our nation's history. Today, nearly 70 percent of American families own their homes – an all-time record – and minority homeownership has surpassed 51 percent for the first time in history.

That figure, however, points to a significant homeownership gap between non-Hispanic whites and minorities. In June 2002, the President challenged the nation to create 5.5 million new minority homeowners by 2010. Since the President's challenge, 2.2 million minority families have joined the ranks of homeowners, and we are on track to meet the 5.5 million goal.

The Administration is working to make homeownership more affordable and more accessible. Government should do everything it can to help families find the security, dignity, and independence that come with owning a piece of the American Dream.

For many Americans, high downpayments and closing costs represent the greatest barrier to homeownership. To help overcome this obstacle, the President proposed the American Dream Downpayment Initiative to provide low- and moderate-income families with the funds and support needed to purchase their first home. On December 16, 2003, President Bush signed the American Dream Downpayment Initiative into law, and since then, HUD has distributed \$162 million in downpayment funds to over 400 State and local governments. These funds have already helped over 3,500 families purchase their first homes – of which more than 50 percent were minorities. The 2006 Budget requests \$200 million to fully fund the Initiative.

Helping families learn about the loan products and services available to them and how to identify and avoid predatory lending practices is critical to increasing homeownership. Housing counseling has proven to be an extremely important element in both the purchase of a home and in helping homeowners keep their homes in times of financial stress. The FY 2006 Budget proposes \$40 million for Housing Counseling to assist over 700,000 families to become homeowners or avoid foreclosing on their homes. This effort will fully utilize faith-based and community organizations.

The President is also proposing a new Single Family Homeownership Tax Credit that could increase the supply of single-family affordable homes by an additional 50,000 homes annually. Under the President's plan, builders of affordable homes for moderate-income purchasers will receive a tax credit. State housing finance agencies will award tax credits to single-family developments located in a census tract with median income equal to 80 percent or less of area median income and will be limited to homebuyers in the same income range. The credits may not exceed 50 percent of the cost of constructing a new home or rehabilitating an existing property. Each State would have a homeownership credit ceiling adjusted for inflation each year and equal to the greater of 1.75 times the State population or \$2 million. In total, the tax credit will provide \$2.5 billion over 5 years.

As you know, tax legislation is the responsibility of the Treasury Department, but we will be working with Treasury's Office of Tax Policy to ensure that the credit legislation addresses issues such as disclosures, so that the credit operates smoothly.

The Homeownership Voucher program, while still new, has successfully paved a path for low-income Americans to become homeowners. Together with pre- and post-

homeownership counseling, strong and committed collaboration among Public Housing Authorities (PHAs), local non-profits, and lenders has proven to be essential in making the program work for families across the country. The greatest challenge to the success of the program is finding lenders who are willing to participate.

Government-sponsored enterprises were chartered to help low- and moderate-income families secure mortgages. HUD recently published a rule that requires Fannie Mae and Freddie Mac to increase their purchases of mortgages for low- and moderate-income households and underserved communities. These new goals will push the GSEs to genuinely lead the market in creating homeownership opportunities for those traditionally underserved by the mortgage markets, particularly first-time homebuyers.

In addition to increasing the housing goals annually from 2005 through 2008, HUD's rule establishes new home purchase subgoals in each of the three goal areas. This is intended to focus the GSEs' efforts on the purchase of home mortgages, not refinancings. HUD projects that over the next four years, GSEs will purchase an additional 400,000 home purchase loans that meet these new and more aggressive goals as a result of the new rule.

As the primary federal agency responsible for the administration of fair housing laws, HUD is committed to protecting the housing rights of all Americans, regardless of race, color, national origin, religion, sex, familial status, or disability. This commitment is reflected in HUD's budget request for FY 2006.

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

The FY 2006 Budget will provide \$23 million through FHAP for state and local jurisdictions that administer laws substantially equivalent to the Federal Fair Housing Act. The Budget also provides \$16 million in grant funds for non-profit FHIP agencies nationwide to directly target discrimination through education, outreach, and enforcement.

The FY 2006 Budget requests \$583 million to fund Native American Block Grants (NABG). These grants are used by tribes and tribally designated housing entities to develop new housing units to meet critical shortages in housing. Although NABG funding has been reduced in FY 2006, HUD expects that all program requirements will be met, including new housing development, housing assistance to modernize and maintain existing units; housing services, including direct tenant rental subsidy; guaranteed lending; crime prevention; administration of the units; and certain model activities.

Serving Society's Most Vulnerable

Ending Chronic Homelessness. The Administration is committed to the goal of ending chronic homelessness, and has aggressively pursued policies to move more homeless families and individuals into permanent housing. A chronically homeless person suffers from a disabling developmental, physical, or mental condition or a substance abuse addiction. They have been homeless for a year or more, or they have

had repeated periods of extended homelessness. They may occasionally get help and leave the streets, but they soon fall back to a life of sidewalks and shelters.

Research indicates that although just 10 percent of the homeless population experiences chronic homelessness, these individuals consume over half of all emergency homeless resources. Housing this population will free Federal, State, and local emergency resources for families and individuals who need shorter-term assistance.

In July 2002, the President reactivated the Interagency Council on Homelessness for the first time in six years, bringing together 20 Federal entities involved in combating homelessness. Since its inception, the Interagency Council has helped State and local leaders across America draft plans to move chronically homeless individuals into permanent supportive housing, and to prevent individuals from becoming chronically homeless. Today, 47 States and more than 200 county and city governments have joined the Federal effort.

The Budget provides a record level of resources for permanent supportive housing for homeless individuals who have been on the streets or in shelters for long periods. The 2006 Budget provides \$1.44 billion for Homeless Assistance Grants (\$25 million of which is for the Prisoner Re-Entry Initiative), \$200 million more than in 2005. Altogether, the Administration requests \$4 billion in 2006 for Federal housing and social service programs for the homeless, an 8.5% increase.

Housing for Special Populations. Housing Opportunities for Persons with AIDS (HOPWA) provides formula grants to States and localities to provide housing to ensure persons with AIDS can continue to receive health care and other needed support. The program also provides competitive grants to nonprofit organizations. In FY 2006, HOPWA will fund an estimated 25 competitive grants and will provide formula funding to an estimated 124 jurisdictions and in total will provide an estimated 67,000 households with housing assistance.

The FY 2006 HOPWA funding request represents a 5 percent decrease from the FY 2005 funding level. The reduction was one of a number of difficult choices the Administration made in formulating the FY 2006 Budget, but one which is in consistent with the goal of restraining spending in order to sustain economic prosperity. HUD is seeking changes in the HOPWA formula that will improve the targeting of the program, so that HOPWA better supports those whom it was created to serve – the most vulnerable persons, and individuals who are homeless or with very low incomes – ahead of other low-income households.

The FY 2006 budget proposes to fund grants of \$119.9 million for Supportive Housing for Persons with Disabilities (Section 811). Section 811 provides assistance to expand the supply and the availability of affordable housing for persons with disabilities. The Administration is proposing the elimination of the program's new construction component, resulting in a \$118.2 million funding decrease from FY 2005. The Section 811 program will continue to support all previously funded housing subsidies under the program and up to 1,000 new housing vouchers. The Administration intends to undertake a study of the Section 811 program to determine the most efficient use of the limited funding available for it.

HUD's Office of Lead Hazard Control and its Healthy Homes Initiative work to eradicate childhood lead poisoning and prevent other housing-related childhood diseases and injuries. The FY 2006 budget proposes \$119 million to fund these two programs, a net decrease of \$47.6 million from the FY 2005 appropriation. The Lead Demonstration

Project accounts for \$46.6 million of this decrease. Areas with high incidence of lead poisoning have now developed greater capacity, and therefore activities previously funded under the Demonstration program will be addressed through the regular grant program.

Making Government More Effective

Reforming Community and Economic Development Programs. The Budget proposes a new program within the Department of Commerce to support communities' efforts to meet the goals of improving their economic opportunity and ownership. This initiative will consolidate programs such as Community Development Block Grants into a more targeted, unified program that sets accountability standards in exchange for flexible use of the funds.

Reforming Low-Income Housing Assistance. Another way in which the FY 2006 Budget will make government a better steward of taxpayer money is through reform of the Section 8 Housing Choice Voucher Program.

HUD has three major rental assistance programs that collectively provide rental subsidies to approximately 4.8 million households nationwide. The major vehicle for providing rental subsidies is the Section 8 program, which is authorized in Section 8 of the U.S. Housing Act of 1937. Under this program, HUD provides subsidies to individuals (tenant-based) who seek rental housing from qualified and approved owners, and also provides subsidies directly to private property owners who set aside some or all of their units for low-income families (project-based).

The Housing Choice Voucher Program, the best known of the Section 8 rental assistance programs, provides approximately 2 million low-income families with subsidies to afford decent rental housing in the private market. Generally, participants contribute up to 30 percent of their income towards rent, and the government pays the rest.

In the past, funds have been appropriated for a specific number of vouchers each year. These funds were then given to PHAs based on the number of vouchers they awarded and at whatever costs were incurred.

In 2001, the Housing Certificate Fund, under which both the project-based and tenant-based Section 8 programs are funded, consumed 43 percent of HUD's annual Budget. That had risen to 57 percent in FY 2005, and the trend line continues to increase dramatically in the Department's FY 2006 Budget. This rate of increase, combined with an extremely complex set of laws and rules that govern the program, has resulted in a program that increasingly is difficult to sustain.

In response to rapidly increasing costs, Congress recently converted this "unit-based" allocation system to a "budget-based" system. This made sense, but for the budget-based system to work, program requirements need to be simplified and PHAs need to be provided with greater flexibility.

I would like to thank you, Chairman Allard, for your leadership in introducing S. 771, authorizing legislation to implement Section 8 reform. This legislation will simplify Section 8 and give more flexibility to PHAs to administer the program to better address local needs. PHAs will continue to receive a set dollar amount as in 2005, but they would have the freedom to adjust the program to the unique and changing needs of

their communities, including the ability to set their own subsidy levels based on local market conditions rather than Washington-determined rents. Local PHAs will be able to design their own tenant rent policies, and in turn, reduce the number of errors that are made and create incentives to work. The plan will eliminate many of the complex forms that are currently required to comply with program rules, saving both time and money. Furthermore, the legislation will reward PHAs for good management through performance-based incentives. These changes would provide a more efficient and effective program, which helps low-income families more easily obtain decent, safe, and affordable housing.

Human Capital. After many years of downsizing, HUD faces a large number of potential retirements and the loss of experienced staff. HUD's staff, or "human capital," is its most important asset in the delivery and oversight of the Department's mission. HUD has taken significant steps to enhance and better use its existing staff capacity, and to obtain, develop, and maintain the staff capacity necessary to adequately support HUD's future program delivery. HUD has revamped its hiring practices, and now fills jobs in an average of only 38 days, instead of the 96-day average originally cited by the Government Accountability Office. Moreover, HUD has synchronized the goals and performance plans of its managers with the overall aims of the agency, and is developing a new managerial framework through recent hiring and executive training programs.

Competitive Sourcing. In April, HUD announced its first public-private competition, focusing on the contract administration and compliance monitoring functions associated with its assisted multifamily housing properties. Through this competition and others that are being considered, HUD hopes to realize cost efficiencies and significantly improve performance.

Improved Financial Performance. HUD has striven to enhance and stabilize its existing financial management systems operating environment to better support the Department and produce auditable financial statements in a timely manner. While still suffering from internal control weaknesses, HUD met the accelerated timetables for producing its performance and accountability report, and improved the reliability, accuracy, and timeliness of financial systems. HUD is continuing efforts to reduce its internal control weaknesses from 10 to 7 by next year.

E-Government. HUD completed security reviews for all of its information systems in calendar year 2004, and plans are in place to eliminate security defects by next year. HUD awarded its large contract for core IT infrastructure, successfully resolving a protest that lasted for two years.

HUD Management and Performance. Today, public and assisted housing residents live in better quality housing with fewer safety violations than four years ago. HUD increased the percentage of projects meeting its physical condition standards in public housing by 9 percentage points (from 83 percent in 2002 to 92 percent in 2004) and in subsidized private housing by 8 percentage points (from 87 percent in 2002 to 95 percent in 2004). HUD now turns around at least 45 percent of public housing authorities classified as "troubled" within 12 months rather than the 2 years allowed by regulation. New rules and procedures have virtually eliminated property flipping fraud from the FHA insurance programs, and close monitoring will continue to prevent such abuses. New rules and procedures have forced out bad appraisers from the FHA program and our "Credit Watch" lender monitoring initiative will continue to bar other individuals who improperly raise the risk of loss in these programs. Since 2002, HUD

has worked with stakeholders to streamline their Consolidated Planning process into an easy-to-use and helpful tool for communities.

Faith-Based and Community Initiative. HUD expanded its outreach to community organizations, including faith-based organizations, attempting to level the playing field for its formula and competitive grants. HUD has removed all discriminatory barriers to participation by such organizations. HUD's technical assistance has helped these organizations understand the application process as well as the responsibilities for implementation. These organizations are beginning to compete more widely and effectively as shown in their success in increasing the number of grants from 659 in 2002 to 765 in 2003, a 16 percent improvement.

Improper Payments Initiative. At the beginning of the President's first term, HUD committed to working with its stakeholders to reduce the improper payment in rental subsidies by one-half by 2005. At that time, over 60 percent of rental subsidies were incorrectly calculated by program sponsors due to improper interviews, inadequate income verifications, misunderstood program rules, and computational errors. Other errors resulted from inadequate verification of tenants' self-reported incomes. Four years later, HUD has achieved exactly what it committed to do. There has been a 27 percent reduction in improper subsidy determinations by program sponsors over the past four years. More importantly, there has been a 50 percent reduction in improper payments amounting to \$1.6 billion.

Beginning in 2005, HUD will expand the verification of tenant self-reported incomes to include recent wage data. This has the dual benefit of both improving accuracy and providing more privacy because income data will be matched electronically whereas current procedures require a paper verification letter to the tenant's employer. These stewardship efforts improve confidence that the right person is getting the right benefit in a timely, dignified, and private manner as intended under law. Because this is the first quarter that agency efforts were rated, progress scores were not given.

CONCLUSION

All of us share the goal of creating housing opportunities for more Americans. We have done great work over the past four years, and we should be proud of everything we have accomplished together. But we should not be satisfied, because our work is far from being finished.

I look forward to the work ahead, as we seek to open the American Dream to more families and individuals, and open our communities to new opportunities for growth and prosperity.

I would like to thank all the Members of this Subcommittee for your support of our efforts at HUD. We welcome your guidance as we continue our work together.

Thank you.