

# NOMINATION OF STEVEN C. PRESTON

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## HEARING

BEFORE THE  
COMMITTEE ON  
BANKING, HOUSING, AND URBAN AFFAIRS  
UNITED STATES SENATE  
ONE HUNDRED TENTH CONGRESS

SECOND SESSION

ON

NOMINATION OF:

STEVEN C. PRESTON, OF ILLINOIS, TO BE SECRETARY OF THE DEPARTMENT  
OF HOUSING AND URBAN DEVELOPMENT

THURSDAY, MAY 22, 2008

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# C O N T E N T S

THURSDAY, MAY 22, 2008

|   | Page |
|---|------|
| Opening statement of Chairman Dodd .....  | 1    |
| Opening statements, comments, or prepared statements of:  |      |
| Senator Shelby .....  | 5    |
| Senator Casey .....   | 5    |
| Senator Allard .....  | 5    |
| Senator Dole .....  | 7    |
| <b>WITNESSES</b>  |      |
| Steven C. Preston, of Illinois, to be Secretary of the Department of Housing<br>and Urban Development ..... | 8    |
| Prepared statement .....  | 32   |
| Response to written questions of:   |      |
| Senator Dodd .....  | 36   |
| Senator Dole .....  | 39   |
| Senator Tester .....  | 39   |



**NOMINATION OF STEVEN C. PRESTON, OF  
ILLINOIS, TO BE SECRETARY OF THE  
DEPARTMENT OF HOUSING AND URBAN  
DEVELOPMENT**

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**THURSDAY, MAY 22, 2008**

U.S. SENATE,  
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,  
*Washington, DC.*

The Committee met at 10:09 a.m., in room SD-538, Dirksen Senate Office Building, Senator Christopher J. Dodd (Chairman of the Committee) presiding.

**OPENING STATEMENT OF CHAIRMAN CHRISTOPHER J. DODD**

Chairman DODD. The Committee will come to order. I apologize to you all for being a couple minutes late starting this morning. Let me welcome all of you here to the Committee hearing as we consider the nomination of Steven Preston to be the Secretary of the U.S. Department of Housing and Urban Development.

The Committee will come to order this morning, and today we are going to hold this hearing. Steven Preston has been nominated by the President to be the Secretary of this very important Department. It is always important, but at these times even more important, I would make the case, because of the obvious housing crisis we are facing in our country, and this Department plays a very important and critical role in all of that.

Mr. Preston currently serves as the Administrator of the Small Business Administration, where for the past 2 years he has focused on a number of challenges, including reforming the Disaster Loan Program and increasing employee morale. These efforts will serve him well if he is confirmed, as there are serious challenges facing the Department of Housing and Urban Development. And we talked about that in my office a few days ago, Mr. Preston, as you will recall.

Before I talk about those challenges, I want to acknowledge, as I expressed to Mr. Preston, some concerns that the nominee does not have a strong background in housing or housing finance—by his own admission, in fact. He has other talents and abilities he brings to this nomination. And while you possess certain other skills of great importance, I do believe that a working knowledge and background in housing is valuable, especially for the Secretary of HUD, a position of incredible importance even in normal times. But, unfortunately, we are not in normal times at all. We are in the midst of the largest housing crisis our country has experienced

in at least 75 years, possibly ever, given the global implications of this housing crisis. When Northern Rock, a bank in Great Britain, fails because of subprime mortgages, you get an idea of how widespread this domestic problem has become even beyond our own shores.

Millions of families, of course, here at home are facing the prospects of losing their homes and their dreams. Millions more are experiencing significant home price depreciation, putting them in the position of owing more on their mortgages than, of course, their homes are worth. Homeowners are seeing the wealth that they have built in their homes over years evaporate literally within days.

According to Martin Feldstein, the Chairman of President Reagan's Council of Economic Advisers, every 10-percent fall in home prices causes household wealth in our country to decline by \$2 trillion and household spending to fall by \$100 billion. So if home prices drop 10 to 15 percent, as they are expected to—and some even go beyond that. We have had the Shiller Index—Mr. Shiller has indicated he thought it may get as high as 30 percent, which would equal the decline between 1929 and 1935, which was a 30-percent decline in housing values. But in a speech that Dr. Shiller gave at Yale University a few days ago—best known as the Shiller Index, by the way, in real estate, highly regarded—he is suggesting that number may equal that of the Depression at 30 percent. So you do your own math on Martin Feldstein's projections of what a 10-percent decline in value does to household wealth. So we could be looking at household spending will fall somewhere between \$100 to \$150 billion, and household wealth could fall anywhere between \$2 to \$3 trillion this year alone.

Now, this problem in the housing market is obviously having a contagion effect throughout the economy. A HUD Secretary is urgently needed at this time, one who understands the magnitude of these problems and one who can effectively act to solve them. A HUD Secretary who will take strong and decisive action to help strengthen the housing market and assist families facing the loss of their homes and the wealth that they have worked hard to build-up over the years.

As I said, I do have some concerns about Mr. Preston's lack of experience in this area. However, meeting with him personally and speaking with Senator Kerry of Massachusetts, who chairs the Small Business Committee, he speaks very highly of Steven Preston, and the members of that Committee, and the job you have done at SBA. I am very hopeful that you will have what it takes to begin to address the major challenges of HUD and the larger housing market.

I want to touch on a few of those challenges, if I can, that you are going to face if confirmed, that we face if you are confirmed, and these are areas that demand, I think, your immediate attention.

First, we need a HUD Secretary who will restore confidence in the Department. And I do not want to dwell on that. I think all of us here on the Committee appreciate what has been going on over there over the last while, and, again, I do not want to get into the weeds on this issue, but suffice it to say the Department could

use a lift, and they are looking for someone to come on in and give them that lift. These are hard-working people. Many of them have dedicated their entire lives, their professional lives, to this Department. And they play a very critical role, and they want to know that the work they are doing is appreciated for the value that they give to it.

There are investigations into a number of allegations of impropriety at the highest levels. This is not only demoralizing the staff, but it has cast a rather large shadow over the entire agency, and we want to see that stopped, if I can.

HUD plays a very critical role in assisting families and communities around the country. Millions of families are in stable housing and in safe neighborhoods, and homeownership is a reality for millions more of Americans because of HUD. It is unacceptable for HUD to be undermined by unethical actions of senior HUD officials. And while Secretary Jackson is gone, the problems he helped to create appear to remain. Just this weekend, the Washington Post contained rather alarming details about millions of dollars worth of contracts being given to a handful of firms despite staff objections. This trend and others at HUD are very disturbing and indicate that taxpayer dollars are being improperly used at the Department. We have an obligation to ensure that taxpayer funds are wisely and properly used and that contracts for Federal funds are being fairly awarded.

If confirmed, Mr. Preston, you will only be in office a short time, unless, of course—well, who knows what may happen here?

[Laughter.]

Chairman DODD. In fact, you are from Illinois. I fully expected Barack Obama to be here to introduce you this morning as your Senator. He is busy.

Senator SHELBY. He is busy.

Chairman DODD. He is busy this morning in Florida. But I urge that your first order of business be to begin to clean up and restore the confidence in HUD among employees. I have been on this Committee 27 years, and I have worked with various Secretaries over the years. We have a former Secretary as a Member of our Committee, in fact—Mel Martinez. And there are some great people here. In fact, the overwhelming majority are fantastic people who are doing just a remarkable job, and they deserve to have a Secretary who is worthy of the effort they make every single day.

Second, we need a strong voice for helping families facing foreclosure. And, again, Senator Shelby and I and Members of this Committee—and I commend my colleagues once again and thank them immensely this past week for doing what no one thought we could do, and that is, come together as Democrats and Republicans and address the major economic crisis in our country in a comprehensive and thoughtful manner. But, obviously, we need an agency out here that is going to be a partner in all of this to help us work our way through all of this. Passing bills is nice, but a lot more needs to be done to make this work.

Earlier this week, as I mentioned, with a vote of 19–2, we established a mechanism through the FHA which would allow families to stay in their homes—at least many, we hope. This is a reasonable and meaningful proposal that will help halt the downward spi-

ral of home prices and foreclosures. Unfortunately, we have not yet secured the administration's support for this. I hope that you will view this proposal with a fresh set of eyes and are able to bring a strong and effective voice within the administration for this and other sensible solutions to the mortgage crisis.

Third, we need a strong Secretary who will fight for HUD initiatives. The administration's budgets over the past 7 years have undermined critical housing and community development commitments to many working Americans. And while we talk about the mortgage crisis, these days there is a second, a silent crisis, if you will, facing low-income Americans. They struggle every day to afford rising rents while also putting food on the table and paying for needed medical and child care. HUD efforts to address this crisis, such as public housing, housing vouchers, and project-based rental assistance, ensure that millions of Americans, including many children, seniors, and people with disabilities, are able to live in stable and safe housing.

The cuts contained in the budgets have led to significant shortfalls in each of these programs. Public housing operations are only funded at 80 percent of need, and there is a \$2.8 billion shortfall in project-based rental assistance. Low-income families deserve better, and we need a Secretary who will work to fully fund critical housing and community development initiatives.

Mr. Preston, if confirmed, you will only have a few short months to take a troubled agency that has sorely lacked in leadership and make it more effective, a tool for meeting the critical housing needs of our Nation. I look forward to hearing from you today and working with you in these coming weeks and months to see what we can do to get this on track. Maybe the great legacy you could leave, in fact, would be to turn this over to a new administration coming in with an agency that is ready to take up the work that you have created and started here and carry it forward. That would be a remarkable contribution in many ways.

Again, you come highly recommended, I must tell you. For a fellow who came to town without people knowing much about you, you have scored some very significant points with the people who have worked with you, and I admire you for that. So I thank you.

Very briefly, I would just say Mr. Preston, prior to becoming the Administrator of SBA, was the chief financial officer at ServiceMaster Company, headquartered in Illinois. He joined ServiceMaster in 1997. It is a large company that provides home maintenance services around the country through such names as TruGreen-ChemLawn, Terminix, and Merry Maids. Before ServiceMaster, Mr. Preston served as senior vice president and corporate treasurer of First Data Corporation. From 1985 to 1993, he was an investment banker at Lehman Brothers. He has a BA from Northwestern University and an MBA from the University of Chicago. So you have a busy background.

Let me turn to Senator Shelby and then any other Members who want to make some opening comments, and then we will hear from you.

**STATEMENT OF SENATOR RICHARD C. SHELBY**

Senator SHELBY. Thank you, Mr. Chairman. I just want to add, too—I was reading his resume. It is very impressive. Also he was a Phi Beta Kappa at Northwestern. That is in there, too. We do not have them everywhere.

Thank you, Mr. Chairman, for calling today's hearing on the nomination of Mr. Steven Preston to serve as Secretary of the Department of Housing and Urban Development.

As Senator Dodd has, and I will, too, I want to welcome you and your family to the Committee. In addition, I would also like to recognize your service as the Administrator of the Small Business Administration. Everybody that I have talked with about this said you have brought leadership and integrity there, which is very important. That is what we want you to do at HUD.

When Mr. Preston arrived at the SBA, it was an agency, as we all know, in desperate need of reform and strong management. As Administrator, Mr. Preston played a key role in reforming the SBA and improving its Disaster Loan Program. With this experience and your work experience and your background, I am hopeful that you will be able to address some of HUD's longstanding deficiencies and some of the current problems in our Nation's mortgage market.

I am specifically concerned with the financial health of the Federal Housing Administration. This Committee has already passed, as Senator Dodd mentioned, FHA modernization legislation, which I believe will help strengthen the program, but I also believe your immediate attention as HUD Secretary is necessary as well.

Unfortunately, the FHA is not HUD's only troubled program. Rather than mention every troubled program now, I will touch upon a few in my questions.

Once again, we welcome you. I believe you could be the linchpin, assuming we pass our legislation and get it through the Senate and get it to the President's desk and he signs it, in dealing with a lot of this mortgage mess that we have on our hands.

Thank you, Mr. Chairman.

Chairman DODD. Thank you.

Any other Members want to be heard? Bob.

**STATEMENT OF SENATOR ROBERT P. CASEY**

Senator CASEY. I will save my time for questions, but I do want to welcome Mr. Preston. We had a good meeting in our office a couple weeks ago. I am grateful for your presence here and your willingness to serve.

Chairman DODD. Yes.

**STATEMENT OF SENATOR WAYNE ALLARD**

Senator ALLARD. Thank you, Mr. Chairman. I do have a statement I would like to make.

I want to thank you and Ranking Member Shelby for holding this hearing in a timely manner. I am pleased that we are moving promptly to fill the secretarial vacancy at the Department of Housing and Urban Development.

I recently had the opportunity to sit down with Mr. Preston, and one of the first things I asked him was why on Earth would he want a crazy job like this. Heading up HUD would be a challenging

job even in the best of times. However, that challenge has increased exponentially with the turmoil in our housing market. And I was impressed by his enthusiasm for the challenge before him.

Some have questioned Mr. Preston's credentials to lead HUD, given his lack of housing experience. I believe this argument is a red herring. Mr. Preston brings managerial, financial, and capital markets experience to the table, and I can think of nothing HUD needs more.

At its core, HUD is about money and business. Compassion of housing causes alone does little to cause HUD programs to necessarily serve more people or to serve them better. Rather, a managerial and financial perspective with a focus on outcomes will yield a better Department.

Mr. Preston's experience as Administrator of the Small Business Administration clearly shows that he is focused on results. During his time in SBA, he has made significant reforms at a troubled agency. That experience is directly applicable to HUD.

Over recent years, including under the leadership of former Secretary, now Senator, Martinez and former Secretary Jackson, HUD has made some major strides in reform. Make no mistake, though. By its very name, HUD will always be susceptible to fraud, waste, and abuse. The Department needs a strong leader like Mr. Preston who can ensure that the positive changes continue at HUD. He has a demonstrated history of the kind of leadership HUD needs to continue its progress.

I am hopeful that we will be able to move Mr. Preston's nomination quickly and get him confirmed. I would, though, like to bring up a serious concern. When Mr. Preston takes over as Secretary, he will be faced with a seriously reduced core of principal staff. The Department currently has three Assistant Secretary vacancies and also a vacancy at Ginnie Mae, and I think this is unacceptable.

I am sure there will be plenty of criticism of the Department today and its inaction on various matters, but this Committee, I think, must share the blame. We have failed to even have a hearing on these key HUD nominees. To be effective, HUD needs staff. These are not recent nominees either. These nominations have been languishing for months, including one from last fall. It is especially puzzling to me that we keep shifting more and more responsibility to FHA, including new authority under modernization, increased loan limits, and the Hope for Homeowners bill we reported just last week. Yet we have failed to provide a President for Ginnie Mae. The success of FHA is very closely linked to Ginnie Mae, yet we are failing to provide the leadership we need during this critical time. This Committee must move to provide a President for Ginnie Mae if we are serious about the ability of FHA and HUD to function during these troubled times.

I believe that if we genuinely care about having an effective Department of Housing and Urban Development and allowing Mr. Preston to have the tools to be effective, we will get all the HUD nominees confirmed in the very near future, not just the Secretary.

Thank you, Mr. Chairman.

Chairman DODD. Thank you very much, Senator.

Yes, Senator Dole.

**STATEMENT OF SENATOR ELIZABETH DOLE**

Senator DOLE. Mr. Chairman, Ranking Member Shelby, thank you for holding this hearing on the nomination of Steven Preston to be the next Secretary of Housing and Urban Development. In light of the current housing market conditions, obviously, as we all know, the importance of capable leadership at HUD is critical.

I am a member of the Armed Services Committee. General Petraeus and General Odierno are testifying at this moment, so I am going to have to leave very shortly. But I also serve as a member of the Committee on Small Business and Entrepreneurship, and so I just want to underscore what has already been said. From my experience on that panel, I would say that Mr. Preston has done a very commendable job as Administrator of the Small Business Administration, and I look forward to working with you, Administrator Preston, as the next HUD Secretary.

Right now this Committee is working on a number of issues that will affect offices within HUD, as we all know. Most recently, we were able to work in a bipartisan manner on the regulatory overhaul of the GSEs, and this is an issue that I have been concerned about since my first day here and certainly have sponsored legislation throughout that period of time. Along with some of my colleagues, we have been really pushing hard for improved oversight for a first-class regulator, and I think it is critical to the long-term stability of the housing and credit markets. And I look forward to this legislation being considered on the Senate floor.

Another issue of importance, of course, is the modernization of FHA. The Banking Committee originally approved the legislation last September, and it was agreed to by the full Senate in December. Included in this measure and agreed to by unanimous consent on the Senate floor is a 1-year moratorium on credit score risk-based pricing to help ensure that minority and first-time homeowners can access FHA products and not be unnecessarily priced out of the housing market. I hope that we can get the FHA modernization act to the President in the very near future.

Mr. Chairman, I will submit my full statement for the record as well as I have questions that I would like to have Mr. Preston answer.

Thank you very much.

Chairman DODD. Thank you very much, Senator.

Mr. Preston, before we ask you to make any comments, is this your staff right behind you there off your right shoulder?

Mr. PRESTON. This is my home base staff.

Chairman DODD. Would you like to introduce the home base staff?

Mr. PRESTON. Actually, I would like to introduce my wife, Molly, and three of my five children. I have Anna, Madeleine, and Gibson. We thought if we had all five, you might question both my judgment and my planning skills.

Chairman DODD. No, no.

[Laughter.]

Chairman DODD. I am one of six.

Mr. PRESTON. Oh, you are? OK. Well, we also did not want you to feel outnumbered.

Chairman DODD. That is good.

Mr. PRESTON. Thank you.

Chairman DODD. All right. Let me ask you to stand, if you will, and take an oath. I would ask you to raise your right hand, if you would. Do you swear or affirm that the testimony you are about to give is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. PRESTON. I do.

Chairman DODD. And do you agree to appear and testify before any duly constituted Committee of the U.S. Senate?

Mr. PRESTON. Yes, I do.

Chairman DODD. Again, let me congratulate you, Mr. Preston, on the President's nomination, and let me underscore something Senator Casey said. We also admire the fact you are willing to serve. We do not recognize that enough, people who are willing to step up and take on tough jobs as worthwhile.

Let me say to Senator Allard as well, my plan is to have a rather large hearing with a lot of these nominees right after the Memorial Day break. Some of the Senator's criticism is absolutely appropriate. In other cases, it is not. I would say the reason is we have been tied up with a lot of things, but my intention is to get to as many of these as we can.

Yes, sir.

Senator SHELBY. Mr. Chairman, just one word, and I mentioned it to you privately, and you know it very well. We have a real housing crisis here. We need a HUD Secretary, and I think the sooner we can get him confirmed and get him over there, I believe that he could help implement a lot of the stuff that we are hoping to get done, passed here in the next few weeks.

Chairman DODD. Well, that would be my hope as well.

Mr. Preston, welcome. The floor is yours.

**STATEMENT OF STEVEN C. PRESTON, SECRETARY-DESIGNATE, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

Mr. PRESTON. All right. Thank you, Chairman Dodd, Ranking Member Shelby, other Members of the Committee. It is really an honor to be here to discuss my nomination to be the next Secretary of Housing and Urban Development.

I would also like to thank you for the speed with which you have held this hearing, and I also want to tell you how grateful I am for the time that each one of you gave me in preparation for today, to give me your views, your recommendations. I appreciate your candor in all cases. And let me just say that if I am confirmed, I absolutely intend to keep the lines of communication and consultation open and to work as a partner with all of you here on the Committee on the issues that are so important to us that we face today.

A number of you have mentioned and I think we all understand how critical leadership is in a time of great need—especially when bold measures are required—and I also think we all understand how important management depth is in leading large organizations.

As many of you know, I have spent 24 years in the private sector in financial and operational leadership positions in organizations as large as 75,000 people.

Most recently, my team at the SBA and I have spent 2 years reforming and revitalizing a Federal agency that has faced many challenges in its ability to serve America's entrepreneurs and disaster victims.

I am not going to get into a lot of detail on disaster issues. I thank a number of you for having acknowledged those. It is in my written testimony.

But we have also made many other changes throughout the agency. We call it our Reform Agenda, and that agenda is designed to improve the service that we give to Americans while at the same time streamlining operations and increasing the transparency. And these changes are helping small businesses get capital, they are helping them get training, they are helping them get access to Federal contracts because of the value that we are providing.

Something else I would like to mention, we have focused very heavily on providing our employees with better training and tools, and also a better work environment at the SBA. When I came into the SBA, employee morale was rated 30th out of 30 among Federal agencies. One year later, our survey showed very strong improvements in virtually every category, with the most dramatic gains in areas that relate to leadership effectiveness as well as workforce effectiveness—things like training and people's ability to perform their jobs effectively.

I would like to also take a second to link my background more specifically with the needs at HUD. As we consider the issues that the country is facing today, the head of the Housing and Urban Development Department will need to be able to address uncommon challenges, like a turbulent housing market and its impact on the economy; the related issues that we see in our financial institutions as well as our capital markets; and the very specific issues that individuals face who are going through these challenges, whether it be with the initial contract they have in a mortgage or the refinancing, which many of the proposals will require; in addition to the issues facing specific communities with public housing, the ongoing challenges of homelessness, and agency management needs, which many of you have referenced.

I have spent most of my career in the private sector in financial and operational leadership positions. My background has given me the tools and the hands-on experience to handle the broad spectrum of very complex issues that I think the next HUD Secretary will face.

As SBA Administrator, I have also overseen loan programs very similar to some of the programs run by HUD. Much like HUD, our lending programs reach people that are underserved by the traditional markets. In fact, SBA loans are five times more likely to go to minority-owned businesses than conventional loan, and about a third of our loans are in distressed rural and urban areas of our country.

Another important goal of SBA is to expand homeownership much—or, excuse me, business ownership, much as HUD's goal is to support homeownership. And we obviously are a critical source

of economic support in communities suffering from a disaster, much as HUD.

At SBA, we have also focused very heavily on initiatives aimed at underserved rural and urban markets. And as a result, we have designed more relevant products, we have expanded our outreach, we have focused our goals on how to support those businesses in underserved communities. Energizing entrepreneurship helps those communities by bringing lasting and sustainable economic activity that creates jobs and generates investment in those communities across our country that need it the most.

Earlier this year, SBA launched its Emerging 200 initiative to identify high-potential, inner-city growth companies and provide them with the training and the resources to reach their full potential.

In addition, the agency established a pilot with Operation HOPE, Inc. in Harlem to provide training and business education, and we hope to expand that pilot to other cities. We are also partnering with the Initiative for a Competitive Inner City to help bring venture capital dollars to inner-city businesses. And I am very proud to say that we received the 2008 National Inner City Economic Award at SBA for our dedication to promoting free, competitive enterprise, especially in the inner city.

However, on a more personal note, you know, I am here because the issues at HUD matter to me. I left the private sector. I came to Washington because I wanted to use my experience to make a different kind of contribution in life. Certainly the SBA experience has allowed me to do that. I believe deeply that individuals are better off and communities are more stable when people own their own business or own their own home or have a nest egg. And to me also this is the route of sustainable progress against poverty, and I think it is at the heart of true compassion.

I also believe that for those who cannot afford a home, having decent, safe, and affordable housing is a basis for stability in so many other areas of their lives. I have come to realize that while, you know, I have talked a lot about business and metrics and operations, that stuff might sound dry, but it is actually another central part of true compassion. As you think about a lot of the initiatives that we are talking about, the effective implementation of those initiatives in a way that touches people's lives effectively is part of making them successful.

So, you know, when people use Government programs, they often do so because other help is not available, and often it is when they are stressed, often it is when they are upset, and often it is during a time of great need. And I think that the most compassionate response at that moment is service that is caring, that is efficient and professional. And the recipients of Government services, especially those in need, deserve that, and that is certainly part of my vision for Government service.

So I thank you once again for having me here. I think my record shows a deep commitment to the needs of hard-working Americans as well as institutions like HUD and SBA that can improve their lives. I believe I have a proven history of successful change management at large, complex organizations. And I also have a track

record of working with urban communities to improve their economic conditions and the quality of life in them.

I also believe my record indicates a commitment to transparency, to accountability, to bipartisan cooperation, and if confirmed, I look very much forward to working with you on the Committee and elsewhere in Congress to continue the efforts to resolve the Nation's housing crisis, to support people in their time of need, and ensure we have a Department of Housing and Urban Development that serves the country effectively at this crucial time.

So thank you, and I look forward to any questions you might have.

Chairman DODD. Thank you very much, and I am going to advise the clerk to put these clocks on at about 6 minutes, 7 minutes, so we do not run over. And we will give everyone a chance here to get a couple of good rounds in here, if we can, before wrapping up.

Let me pick up on the point that Senator Shelby made in his opening statement, and obviously we have got work to be done yet here. We have got to get through the full Senate with our bill. We have got to work out differences with the House.

Let us just fast forward, if we can here, and if things move as we hope they do, I know the two of us would love to be able to put a bill on the President's desk by the July 4th break, if we could. There is an urgent need out there and we want to—

Senator SHELBY. We are going to work together.

Chairman DODD [continuing]. Respond to—yes, it is our goal to get there.

What is going to be very important, what Senator Shelby raised with you, Mr. Preston, is the importance of the role that the Secretary at HUD will play. Because this is going to be—this will work if FHA helps make it work. We can write the law, but at the end of the day if we have an agency that is reluctant or not as enthusiastic about the idea, about trying to keep people in their homes and do so in a way that is fair and equitable, setting standards in here that will make it—some of the moral hazard issues that others have raised.

So it is really going to be very determinative in the end. We can do a great job writing a bill, but if we do not have an administrator and an agency committed to it, then all of that work could basically go for little or naught.

And so my question for you is I would like your commitment this morning that you will do—first of all, I would like to get your comments on it. I do not know what your general thoughts are about this. There has been resistance to the idea of this—having a writedown of these mortgages, these adjustable rate mortgages, to the point where people can afford them and requiring the lender obviously to take a haircut. The borrower pays insurance, among other things. And we are trying to balance—this ought not to be an easy ride for anybody but we do not want to make it so difficult that people walk away, either.

So I wonder if you have had a chance to take kind of a look at this broadly, what your own reactions are to it, and what commitments you will give us here that if we get this done as we hope to in the coming few weeks that we will be looking at an administrator that is prepared to make this work?

Mr. PRESTON. Well, first of all, I appreciate all of the work that you have done very quickly on a lot of these policy initiatives because obviously we are facing a very urgent situation in the country.

You know, Senator, I come into this with a very open mind and I think I have the tools to evaluate a lot of the policies that you are looking at. I think the President is asking me to take this job because he wants somebody to come in who will be a good advisor and a good partner to Congress, as well as an important voice in the Administration. And I intend to serve both of those, to fulfill both of those roles.

And certainly, you can expect that if I am confirmed, I am going to be at the table working collaboratively with you all. You can also expect that if you have a bill that is passed and the President signs into law, you will have my full effort in implementing an operational solution at the other end that serves those people who need that help.

My view is once that lands on our desk, we have got a job to do. And our job is to make it happen and make it happen effectively for Americans who need that help.

Chairman DODD. Well, it is—I am going to suggest to you that you might want to get some rest over the Memorial Day break, because this is going to require a lot of hard work. Mr. Montgomery is sitting a few seats behind you here in this hearing room today, and he has been before the Committee already. And he is going to be getting an expanded mission, we hope, fairly quickly and we are going to need some people to roll up their sleeves and go to work on this.

You were at Lehman Brothers before. This is not an issue or area you are unfamiliar with, generally speaking, here. Do you have any thoughts you want to share with the Committee about the general direction we are heading with all of this?

Mr. PRESTON. Well, I think—I think we have some very complex issues. And this whole set of challenges we have is complex. I mean, it sits in the complexity of the contract that sits with the borrower. It sits in the decisionmaking process of the financial institution. It sits in a public market that was absorbing stuff that they probably should not have. And it also sits in the follow-on effects of the housing market decline.

So I think it is a very broad, very complex issue. I do appreciate the fact that the work that you all are doing is focused on helping individuals who want to stay in their homes and who want to be committed to paying their bills. And I think we all want people to be able to retain their home to the extent that they can afford it and they desire that. And I really appreciate that aspect of what you all are working on.

And I also appreciate the fact that you are working toward a solution with the GSEs that both considers their mission and their need to be financially viable, because they have very significant importance to enabling working class and middle class Americans get mortgages and they have a mammoth impact on our capital markets, multi-trillion organizations. So we need financial stability over there.

And I think we have to bridge those two missions, which can be in tension at times.

Chairman DODD. And that is what our goal is and I think we have come close, we hope, to achieving that with our legislation.

Let me jump, if I can, to the affordable housing issue. Jack Reed of Rhode Island has been a champion on our Committee of the affordable housing issues. In fact, as part of this bill, we establish in perpetuity an affordable housing trust, which we think is going to be very exciting in the years to come to address the issues of affordable housing in the country.

There is, according to reports now, there is a \$2.8 billion shortfall in project-based rental assistance. This helps 1.3 million low-income families afford stable housing. This is a result of HUD, we feel, not being terribly forthcoming with Congress about its needs for housing. In fact, it was not until after the budget submission that HUD admitted the amount of the shortfall. A \$2.8 billion shortfall should show up in the Administration's budget, we would predict. So I have two questions related to this.

I am concerned about the inaccuracy of information. The one thing that we on this Committee will insist upon, all of us here, we may not like the numbers we are looking at but we want to know what they are. And we may argue about whether or not we want to go forward or go backwards, but we need to have accurate information. We cannot function otherwise.

And I know there are a lot of pressures that can come to bear on various agencies and departments, but in the past we have had some difficulty getting timely and accurate information from HUD in areas that this Committee oversees. And I would like a commitment from you that we are going to receive accurate and timely information from the Department. That should never, ever again be an issue. As long as I am in this chair, I want to make darn sure we are getting the best information, the most accurate information you have.

If we cannot get that, if we do not have that trust here, then it makes it awfully difficult for us to have the kind of debate we should have about where we need to move.

Mr. PRESTON. Right. Yes, I do not know how accurate the information is within HUD right now, or if there are specific information challenges. But what I can commit to you is I have run the SBA very transparently. I believe every Federal organization has an absolute duty to be fully transparent to Congress as well as more broadly to the public. And I think my background as a chief financial officer has helped me in that area at SBA. It has helped me to figure out with my team how to pull information out and make it public.

But the other thing I would highlight, Senator, is I think we have had a lot of challenges at the SBA, frankly, that nobody knew about until I raised my hand and said look, we have got a real problem here. I am not going to hide it, we have got to get after it. I have a firm view that if you have got a problem in any organization, getting it on the table and letting everybody understand it is the most important first step to getting a solution in place.

So I am absolutely committed to transparency. That is how I lead, and I certainly think that is the only way you can move an organization forward.

Chairman DODD. I thank you for that.

Let me continue along this line. I am also concerned that the short-term funding agreements that HUD is signing with owners as a result of this shortfall threatens hundreds of thousands of affordable housing units. Owners of this critical housing are already indicating they cannot continue to operate affordable housing without assurances of funding. We have called on the Appropriations Committee here to fill this gap, and we will continue to push for that.

I would like your commitment to look into this problem, if you are confirmed, and quickly let us know the Department's plans to address the shortfall and the loss of housing that may result. We need to know what direction you are going to go in. May I have that commitment from you?

Mr. PRESTON. Absolutely, yes.

Chairman DODD. The affordable housing crisis has been worsening and I am pleased, as I say, that the bill we passed this week, thanks to Jack Reed—and others on the Committee, but Jack really has been a champion on this for a long time—are going to establish that program.

According to the Joint Center for Housing Studies, between 2006 and 2007, in just 1 year, the number of severely cost-burdened households, those who pay more than half of their income toward rent, jumped by 1.2 million to a total of 1.7 million households in this country. That is one in 7 households in America. That is a remarkable increase.

This increase is disturbing and I am concerned that we pay far too little attention to this problem. We have talked about home ownership, and that is a very legitimate issue. But for an awful lot of people—in fact, one of the things we learned is we have got a lot of people into home ownership that probably should not have been in home ownership. That is one of the problems we are looking at.

But in the alternative, having decent affordable shelter rental housing has got to be there. And this is a growing problem. So I wonder if you have any initial views on how we might meet these critical needs?

Mr. PRESTON. This is actually something that a number of you have brought up during the pre-confirmation process, and I agree with you 100 percent. We cannot focus all of our effort on the housing situation because we have millions of people in America who rely on HUD and its services to have a safe, decent, affordable place to live. So I think that is going to be a very important part of my focus, if I am confirmed.

Chairman DODD. I appreciate that. We would like to hear from you very quickly on this, so thank you.

Last, and I will stop with this one, I have introduced legislation to modernize the Section 8 Housing Voucher Program. It is one of the most successful housing assistance tools to codify an efficient reasonable housing funding formula. The bill would help agencies

focus more of their time on helping people and less time on administration.

Again, I do not expect you to comment on the bill that I have introduced, but I would like to have you take a look at that in the Department, and get back to us as to what your thoughts are about it and any suggestions you would have for it, so that we might be able to try and move that this year.

Mr. PRESTON. I look forward to doing that.

Chairman DODD. Let me stop there and turn to Senator Shelby.

Senator SHELBY. Thank you, Mr. Chairman.

Mr. Preston, the majority of HUD's programs consist of passing through Federal dollars to State and local Governments. The success of these programs, such as CDBG and HOME, depends on HUD's ability to serve both as a partner to local governments and also to hold local governments accountable for results.

How important do you believe it is to ensure accountability on the part of the State and local Governments dealing with our programs, in other words our money?

Mr. PRESTON. Yes, I think any time you have a grant recipient from the Federal Government, it is important to both understand how effectively those funds will be used and to look at their effectiveness and the accountability of those funds. And I know the Community Development Block program is designed to provide States or the recipients with a lot of latitude on how to use that within their discretion, but certainly within guidelines.

But somehow, I think every dollar that we provide to any grant recipient should have an accountability attached to it, and that is a very important part of—

Senator SHELBY. You just cannot send the money out there and that it is, can you, without some oversight into what they are doing with that money?

Mr. PRESTON. I would agree with that.

Senator SHELBY. The Katrina CDBG delays, I do not know if you are familiar with some of this. SBA's Disaster Loan Program has not been the only assistance program facing delays and backlogs as a result of Hurricane Katrina.

For instance, my State of Alabama has yet to award the majority of CDBG funds targeted for housing assistance, my own State. What role do you believe HUD can play in encouraging State and local Governments to expedite the process of awarding housing assistance to Katrina victims?

Mr. PRESTON. Well, that is a great question, and I know from my time down there, Senator, that all of the different States who have received this money have taken a somewhat different tack, both in terms of who gets the money and how they provide it to them.

Senator SHELBY. Sure.

Mr. PRESTON. And also, in sort of the process around it. And I think—I do not have enough specific insight into HUD's oversight of those funds and I would very much look forward to working with you and your staff if you have specific ideas or specific concerns for us to look into and certainly to understand whether you think a higher degree of accountability and oversight is required.

Senator SHELBY. We just want the program to work for the people it is intended to. And we want to, in these situations like

Katrina, Mississippi and Louisiana took the bulk of it but my State of Alabama took some hit, too, as you well know.

Mr. PRESTON. Yes, I do know.

Senator SHELBY. Fraud and lending. On several occasions, HUD's Inspector General has raised concerns regarding FHA's approach to reducing fraud in its mortgage insurance programs. For instance, the Inspector General recently reported that FHA does not consistently refer potentially fraudulent loans to the Inspector General's office.

I suspect the SBA's lending program would also be susceptible to fraud in the absence of appropriate safeguards. What are some of the methods SBA—and you are head of SBA—has used to monitor and to eliminate fraud in its lending programs? And could you use some of this perhaps in your background to help meet that challenge at HUD?

Mr. PRESTON. Yes, I certainly think that there are a lot of analogies between the two programs and there may be a great opportunity to share best practices. I also think that the Inspector General has to be a very important partner in eliminating fraud, because ultimately they are the ones that are charged with actually looking into potential fraud and uncovering it.

So I think one of the most important things was to have an effective mechanism at the point where the agency receives an application or other documentation from a lender. And often there are flags. You see certain types of activities with certain lenders which may indicate fraud. You see certain kinds of other kinds of red flags, which then you should use to support your relationship with the IG so that they come in and follow up on it.

I do not know if I am being clear here. But I think when you are dealing with a very large scale, very high volume operation like the FHA, it is important to have things that you are looking for on a regular basis that automatically would lead you to refer to an IG.

Senator SHELBY. Where there is money, a lot of money, there is going to be fraud. It is a question of how to deal with it.

Mr. PRESTON. Exactly, and where there is a high volume there is a consistency of indicators that you can look at.

Senator SHELBY. The Agency Disaster Response Coordination. In the aftermath of a disaster, such as Hurricane Katrina that I referenced, families receive recovery assistance from a variety of sources: SBA, HUD, FEMA, and so forth. How well coordinated are agencies such as HUD and SBA in providing assistance to families impacted by natural disasters? And do you believe that there are ways that maybe something you learned at SBA that you can carry over and help improve that coordination?

Mr. PRESTON. Yes. In some cases it is extremely well coordinated. And I think certainly in the last couple of years we, in FEMA, for example, have taken a lot of actions to coordinate much more effectively. I think when you look at the Community Development Block Grant program, they need to coordinate with other agencies. And they do need to coordinate with SBA, for example. We did it extensively across the Gulf.

Because every program is a little bit different, it is not as cookie cutter as it is, for example, where you have got the same type of

assistance in every situation. CDBG is a little different in every situation.

So it is really critical right at the front end, when you have got a disaster and those funds go to that local area, to understand who is getting them, the basis upon which they are being conveyed, and how that interaction needs to happen with other Federal agencies, and get working groups in place immediately, figure out where technology needs to coordinate because information has to flow back and forth, and get those working groups absolutely linking arms. Because otherwise people go in different directions and there is confusion and you miss things.

And that coordination also has to be at the highest level. So we have worked through this at SBA very extensively in a number of situations. I think there are some models that work very well. But the challenge, I think, with Community Development Block Grant money is every situation is a little bit different and you have to identify those differences right away and accommodate them.

Senator SHELBY. With any Federal loan guaranty program, FHA, there is the conflict between encouraging lender participation and protecting the taxpayers from losses. For instance, efforts to reduce fraud or relieve some risk to the lender may reduce the incentives for lenders to participate. Without these protections, however, there is a greater chance for fraud and negligence on the part of the lender.

Your oversight of the FHA will require writing the right balance, and I would like to hear you went about addressing these conflicts in SBA's loan programs?

Mr. PRESTON. Well, there is a conflict. We face it. And so I certainly would not deny that there is.

First of all, organizationally, we had different leaders, one that provides the oversight function and one that provides the outreach function. And it is important to keep some separation between those two so that you can have independent judgment.

The other thing is I think it is important to have very clear triggers in an organization that would say look, if a lender gets to this point, either in terms of the quality of their portfolio or concerning activities, we are going to begin to take a hard look at it. We are going to send somebody in to investigate this situation. We are going to put them on a shorter leash. We are going to review their portfolio more frequently to determine whether or not we need to pull back the reins a little bit more.

So it is important to have triggers that kick in that enable the agency to provide greater oversight and then determine what the right actions are.

One thing I would caution against is automatic triggers that say that if somebody's portfolio is of X quality, immediately we are going to cut them off. Because you do not know, they may be in a troubled area of the country. They may be in a disaster zone. But you have to have those triggers kick in and then people will come in with judgment and analysis and then make the decisions based on that.

Senator SHELBY. Thank you, Mr. Chairman.

Chairman DODD. Thank you, Senator. Senator Allard.

Senator ALLARD. Thank you, Mr. Chairman.

I would like to hear you comment a little bit about what you learned at the Small Business Administration and how you might apply some of those lessons to HUD, and talk a little bit about what you see are the greatest challenges in HUD and what you might see would be the solutions to those challenges?

Mr. PRESTON. Well, I have learned a lot at the SBA but let me just kind of make a couple of highlights.

First of all, one of the most exciting things, I think, about coming into the SBA was the ability to pull a team together and drive lasting, sustainable change in a way that changes people's lives in our country in every relevant way. And I think we were able to do that through a number of ways.

First of all, I think we were really able to energize the work force, energize the work force by laying out a clear vision for where we were heading, by providing them with much better training and tools to do their jobs, by communicating that mission to them much more effectively, and then holding people accountable for results.

I firmly believe that as a leader, any time you have got a big job to do you have got to communicate that to people and get them to buy on. And then everything you do needs to support that. Major initiatives, what you track, what you talk about, how you hold people accountable, how you pay them. And I think the systems we put in place at SBA did all of that. And it enabled us to do some things, I think, that we are all very excited about.

So as I come into this opportunity at HUD, I think it is going to be very important for me to understand what is working effectively, what is not, bring the team together to set out the path forward. We do not have much time. But I am a firm believer you can get a lot done in 8 months, and I certainly think we did at the SBA.

The other thing that I have learned, as sort of a sideline, is people want to be led. And when you get out there with a vision and give people an opportunity to participate in a vision, people rise to the top. And they are part of driving it forward. They are part of making it happen. They are part of bringing the excitement into the organization.

And I have to tell you, you know, when I look at what is going on, the opportunities in the housing market right now—and certainly I have had a chance to meet with a number of the employees at HUD just learning about it, many of the career employees—there are some terrifically talented people there, and people that I really look forward to having on a team that works very hard over the next 8 months to address a lot of these challenges.

Senator ALLARD. You come from the Small Business Administration. Obviously, you are used to having a focus on small business. The SBA's Office of Advocacy has raised concerns that HUD's proposed RESPA rule—you are, I think, familiar with their proposed RESPA rule?

Mr. PRESTON. Yes.

Senator ALLARD. Which would perhaps impact small business. Are you familiar with those concerns raised by the Office of Advocacy? And do you share these concerns?

Mr. PRESTON. As I understand it, some of the concerns raised by the Office of Advocacy are being dealt with in this comment period.

I know RESPA, the Agency just announced a 30-day extension period of the comment period.

Senator ALLARD. I appreciate that, yes.

Mr. PRESTON. As I understand it, many of the SBA advocacy concerns have been addressed in the more recently proposed rule.

But I think more importantly, Senator, you raise a very important issue. Any time we look at regulations we have intended value that we are trying—intended benefits that we are trying to convey. In this case, the intention is to provide people with a more transparent, more understandable closing process and give them the opportunity to potentially find a better closing process or a better deal. While on the other side, we are imposing some burdens on the community, the business community, to be able to fulfill that.

And so it is very important for us to balance the value of any regulation with the unintended burdens that it can create. And I think as we go forward through this comment period, it is going to be critical that HUD considers all those issues.

And certainly, coming from the Small Business Administration, oftentimes small businesses are the ones that are hit hardest by new regulations.

Senator ALLARD. What do you think we need to do to help meet consumer needs as they may apply to the various participants, both large and small?

Mr. PRESTON. I look forward to reading those comments, to meeting with the team and reading what came out of the comment period. So Senator, I do not know that I have got a detailed enough notion to understand exactly what that reform should look like.

But I do think it is important for individuals, when they come to a closing process, to understand what they are getting to and for there to be clarity in that. And I am hopeful that that can be done in a way that is not overly burdensome to the industry. Once again, I think that is the balancing act here.

But I look forward to hearing what many people have provided in terms of comments on the regulations so I can get a better sense of that.

Senator ALLARD. You and I had some discussion about the PART program and I just want to commend you for the results demonstrated under PART with the Small Business Administration.

Mr. PRESTON. Thank you.

Senator ALLARD. Can you please discuss your views on the PART program? And how can it be helpful to managing and budgeting for results, particularly in HUD?

Mr. PRESTON. What I appreciate about the PART program and other efforts is that it focuses all on the effectiveness of our programs. And if our programs are deemed not to be effective, it helps us understand where the people who are doing the measuring have deemed those not to be effective so that we can improve them, reform them, or take whatever measures we need to make.

So certainly, I think PART, as well as other management tools, are very important for all of us who have great responsibility in the Federal Government to make sure that we are operating effectively.

Senator ALLARD. Senator Jack Reed and I have been working for quite some time on legislation to consolidate HUD's homeless pro-

gram into a flexible, streamlined program. Our legislation also takes steps to recognize the important distinction between the solutions for homelessness in rural and urban areas.

The Administration has been, I think, very helpful in this effort and I would like to commend the staff.

Do you share our belief that it makes sense for the HUD providers, and most importantly those who rely on HUD's homeless programs, to consider consolidation in a single, flexible program?

Mr. PRESTON. I would very much look forward to understanding your concerns in that area, Senator. Certainly, it has been my experience in my almost 2 years here in the Federal Government that many times we have programs that do very similar things. But they are done separately. They are administered separately, and they can be inefficient.

And so I would look forward to spending time with you and your staff to see if that is the case for the homelessness programs we have in place and to determine what the best path forward is. But I certainly understand where your concerns are.

Senator ALLARD. My time has expired, Mr. Chairman. Thank you.

Chairman DODD. Thank you very much. Senator Casey.

Senator CASEY. Mr. Chairman, thank you for arranging this hearing, and Ranking Member Shelby as well, thank you.

Sir, I wanted to thank you for the time you spent in our office, just as you did with other Members of this Committee. Mr. Preston was in our office, and we—I think I mentioned this to the Chairman—had a good meeting about Philadelphia, and I will get to that in a moment. But I do want to ask you a couple of questions, first of all, about standards that apply to the appraisal issue and other issues as well.

It is my understanding that HUD has eliminated the test for appraisers, and I just want to get your sense of that. I have been deeply concerned about this aspect of the challenge we have with housing that we get independent appraisals, that we get them done in a very professional way, that people who are doing the appraisal work have the kind of skill and background and education. I had an amendment on that that was included in the legislation we passed Tuesday. Senator Martinez and I worked together on appraisal issues generally, and we have been working together on that, and I appreciate his work on that as a former HUD Secretary as well as now a United States Senator.

But I wanted to get your sense of that in terms of the testing issue and then also with regard to the relaxing of repair and inspection requirements, just to get your perspective on both those issue.

Mr. PRESTON. Well, I think it is important when you are lending or guaranteeing money to ensure that you have the right standards in place, and there are many people in the process of buying a home that are charged with reviewing aspects of that transaction and effectively helping the borrower—or the lender, rather, make good decisions. So I think it is very important that there is integrity in the process and that we can rely on information that we get. And certainly if you have concerns in that area based on the two that you just mentioned, I would love to spend time with you and

understand more specifically where you think that may be leading to, either a lack of quality in the process or financial risk or otherwise.

Senator CASEY. Thank you. I wanted to ask you also about the issue of counseling. I have spent and other Senators have spent a good deal of time on the issue of making sure that we have adequate funding for foreclosure prevention counseling, and it has been a concern of many of us. And hundreds of millions of dollars now have been committed to that effort in the last year. But I wanted to get your sense of, A, the dollar amounts that we have in place now, but also the fact that I think in 2007, fiscal year 2007, HUD only awarded \$41.5 million for housing counseling.

So there are two issues: one is the funding levels, which have increased dramatically, and we know that, for example, by some estimates—I think it is a Treasury Department estimate—that people who get counseling, 96 percent do not have a problem after that, even in the subprime context, even people who are in subprime mortgages, if they got counseling ahead of time, by and large, a high percentage of them do not have any problems. So the funding is one issue, but the other issue is the type of counseling and the work that is done by counselors as it pertains to homebuyers, because I think the original authorization for counseling goes back to 1968. And, of course, the market has changed, the housing market has changed dramatically.

So I want to get your perspective on the funding issue and ask you to commit to advocating for funding, but also making sure it is spent expeditiously and in a very targeted way; and then, second, on the program itself, how we do the counseling.

Mr. PRESTON. Well, one of the things, certainly, as you may know, we provide training to a million entrepreneurs a year, people who come in and want to figure out how to start a business or grow a business. When you look at a complex financial situation—which for most Americans a mortgage is. I mean, I think we think of it as sort of an everyday thing, but, you know, I have got an MBA in finance, and I have been in finance for 25 years, and I still sometimes have to scratch my head when I look at the pile of documents, you know, and walk through what I am signing. And we are in a situation where we are not only trying to help people buy a first home or enter the market. We are in a situation where we have a dramatic need for people who need to refinance and get into a different situation.

I have a real concern, as I have read a lot of the industry research, that lenders are seeing backlogs. It is difficult for them to get through it. And now I do know that HUD has expanded funding. I know through the Hope Now Alliance, a lot of lenders have expanded funding for it. I think that is an essential element. It is hard for me, Senator, to understand if that is sufficient just because, you know, I am not in the job and I have not been able to work through that with the staff. But I certainly would echo the importance of helping people understand what they need to do through this process in a way that is effective.

I did not mention this in my testimony, but, you know, as we chatted a little earlier, one of the—our primary function in a disaster is to provide homeowners with loans—not business owners,

homeowners. And one of the things we did when we worked to repair this big Katrina challenge we had is we gave every homeowner in our loan program a case manager. That case manager was effectively a counselor.

Now, people said, you know, how can it be efficient? You want to do everything kind of automatically. But the problem was people did not understand what they were getting in. They were sending us documents that were wrong. We would send them something back. We would have four or five communications with them. That led to frustration. That led to delays. Once we gave them a case manager, they could get it right the first time.

It turned out to be a very efficient thing to do because 15 minutes on the phone saved everybody a world of hassle, a world of time, and, you know, within a month of launching our new re-engineered process, we were doubling disbursements.

So having the right kind of up-front support I think is very important to helping people through a process that for them is very complicated. So I appreciate your concern.

Senator CASEY. And we will talk more about it. I know we do not have time to delve deeply into the Philadelphia situation, but my understanding is that progress is being made, and that is a great development. And we will have more time to explore that, but I thank you for your commitment to trying to move that forward.

Mr. PRESTON. Thank you.

Senator CASEY. In the remaining seconds that I have, I wanted to address your family, your wife and your children who are here, to thank them, because I know that, for your children, when your father makes a commitment to do a job like this, you have to help him as well. So we thank you for helping him, and thank you also for being so attentive. This is not easy for anyone, and we are grateful for the contribution of your family to the work that you have to do.

Thank you very much.

Chairman DODD. That is pretty good. You got to stay out of school today, too, though, didn't you? You begin to wonder which is worse—school or listening to this.

[Laughter.]

Chairman DODD. School is looking pretty good. There is no quiz at the end of this for you, though, I should tell you.

Senator SHELBY. Not for them.

Chairman DODD. Not for them, no.

[Laughter.]

Chairman DODD. The former Secretary of HUD, our colleague.

Senator MARTINEZ. Mr. Chairman, thank you very much.

First of all, welcome. Congratulations and welcome to all the members of your family. I cannot help but reminisce to the day of my hearing. At the time my youngest was 6 years of age, and by the time I had heard from all of the distinguished Senators, as they were all telling me how I should run HUD—which I took to heart, of course, I want you to know.

[Laughter.]

Senator MARTINEZ. This went on for a while, and by the time I was to introduce my family at the beginning of my statement, I turned around to introduce my family, and I noticed my 6-year-old

was gone. So, anyway, I encourage your perseverance, and thank you for being here, and I congratulate all of you on this important moment in your lives.

Let me just say that I believe you have a challenge ahead in many respects and a short time to accomplish them. But I believe it is a terrific place in which to make a difference in people's lives. You have a terrific group of people that are there ready to help you.

Mr. PRESTON. Thank you.

Senator MARTINEZ. The career staff are terrific. They are dedicated. They are committed. Many of them have dedicated their entire lives to the mission of HUD and know it well.

In addition to that, I know behind you are a number of political appointees, Schedule C's, that I have had in some cases an opportunity to work with. They are also very committed, terrific, and dedicated people, and I think you will find in them a ready resource to help you meet the challenges that you will face.

One of the things I am proudest of from my time at HUD is the initiative to end chronic homelessness. It is a terrific initiative, and I think it has had immeasurable success. And I guess rather than ask a question, I would ask for you to put your caring hands on that program and take a look at how it is going. I agree with Senator Allard that streamlining the grant process would be a good thing. I thought, frankly, we had accomplished some of that, and sometimes accomplishments can be elusive in a bureaucracy. So I would encourage that as well. This is one of those areas of HUD that is not often talked about or looked at, but it is terribly important. That is an initiative that I think has had a nationwide impact, and I commend it to you.

Undoubtedly, something that I worked very hard on as well was the issue of RESPA, and I was delighted that a rule has been forthcoming. In my view, I think that in terms of RESPA, transparency for the potential homeowner—I think if we had passed the RESPA rule that I proposed, while not everyone would have been happy, I think we might have avoided some of the problems we have seen in the current housing crisis. But I think transparency, less paperwork, the ability for folks to go to a transaction which is the most important in their lives and actually understand the documents that they are signing and to have them be of a number that is reasonable in number so they can actually get their arms around it as opposed to just signing a stack of meaningless paper because HUD makes you do it, I think these would be things that would be helpful. Consumer friendliness in that process I think would be also great. So I hope when these comments come back, you will look at it and not be reticent to move aggressively in the area of that.

I think junk fees need to be also looked at. Folks ought to know what they are paying for, and they ought not be paying for things that are just there because someone could tack another couple hundred dollars onto the deal and no one is really going to be the wiser. People ought to get a benefit and a value for what they pay for.

So, in any event, let me stop the lecture and only commend to you one other very important program at HUD that I had a part

in the initial stages of, which is the faith-based initiatives. The partnership between the community of faith and Government I think, again, has been very successful, and I hope you will look at that as something that can be an adjunct and an ally in what you do.

I hope that you will consider me a resource. If I can be of help, I am there to help in any way I can, and I look forward to you having a very successful tenure.

We just recently did some very important things in this Committee. You are going to have a hand in the implementation of those. Have you had an opportunity at all to familiarize yourself with the Government-sponsored enterprises and HUD's hold in their regulatory scheme?

Mr. PRESTON. Broadly, yes.

Senator MARTINEZ. We enacted some very far-reaching reforms in that scheme. Have you had an opportunity to become familiar with them at all? And do you have any views on their implementation?

Mr. PRESTON. Yes, one of the things that I think is very important with the GSEs is that we have a—obviously, they were created to fulfill a mission, and I think it is important that we work with them to ensure that that mission is fulfilled. And they obviously have a significant, very significant role in getting capital to people who need it and people who might not be able to get it if they did not provide the liquidity in the capital markets that they provide.

At the same time, I think we have got—and we chatted about this a little earlier—two organizations that are absolutely massive in scale and massive in their impact on the financial markets and in their potential risk. So I think it is very important that we balance those two things. Sometimes they are in tension, but I think actually by doing them both right, you know, ultimately you get the best of both worlds.

So I look very much forward to working with you and the Members of the Committee to ensure that the path forward for the GSEs accomplishes those goals.

Senator MARTINEZ. Well, the bill still has a path forward itself, but assuming that it becomes law in some form similar to what we passed here, I think it will be a great step forward. And I think the implementation of this, working closely with the existing OFHEO, as well as with the Department of Treasury, will be very important as you attempt to get your arms around a transition to a new regulatory scheme of these very, very important institutions.

The other thing is that we are currently—you know, when I was at HUD, we were in the business of putting more people into homeownership, particularly minority families, where they were underrepresented among homeowners. Tremendous strides were made over the last many years, in part by things that the administration did, in part by the economy and the nature of what interest rates were doing, and the creative financing that now has become a problem.

How do you envision helping families stay in their home—working, I know, with FHA and Mr. Montgomery and others, but how do you intend to approach providing leadership at this very crucial

moment to not diminish the gains we made in putting people into homeownership, particularly in the minority communities?

Mr. PRESTON. Well, certainly, I would look forward to being a good partner with you all as some of these policy initiatives are advanced. I think you need a strong partner at the table. I intend to be that. I intend to look at the various policy solutions that you all are proposing with a fresh mind and to be an important player in that process.

I also think it is important that whatever the path forward be, that FHA have, you know, the operational wherewithal to be able to handle the increased volume. Their volume has already gone up tremendously. Certainly it may go up even more should some of these policies be passed. And I think it is going to be important for me to engage with the operational team.

So often I think we have got, you know, great policies and great programs, but if we fall down on the operational side, ultimately those great ideas do not get conveyed and fulfilled at the front end. And I know with the volume increase, in my operational background, I am looking forward to being a good partner with Commissioner Montgomery and his team. I know they have been working very hard on a number of these things recently, but in addressing the need there.

Senator MARTINEZ. I know my time is up, but I want to also—the next area I would have talked with you about if I had more time is the PHAs, public housing authorities, and they continue to have challenges throughout the country. And I know that ensuring their integrity and their operation in a way that is not only competent but also honest is a huge key to the success of the PHAs around the country.

Anyway, I commend you for your willingness to serve. I thank you for that and wish you the very, very best. And know that I am here for you at any time.

Mr. PRESTON. Thank you.

Senator MARTINEZ. And you are welcome into the HUD family, which is a great group of people.

Mr. PRESTON. Well, I want to thank you for the advice you have given both here and in our meeting, and I look forward to getting more of that, if I am confirmed. And do not be surprised if you are on my speed dial. You might regret the offer.

Senator MARTINEZ. I am glad to be a resource any time I can. Good luck.

Mr. PRESTON. Thank you very much.

Chairman DODD. Thank you, Senator.

Senator CARPER.

Senator CARPER. Thank you, Mr. Chairman.

Mr. Preston, welcome. Good to see you again and to be able to welcome your wife. And you said three of your five children are here?

Mr. PRESTON. Three, yes.

Senator CARPER. That would be a quorum, so we are glad. Obviously, I have been watching your son especially as you speak. I can barely see his lips move while you speak. He is pretty good at—he has the brains in this family, I tell you.

[Laughter.]

Senator CARPER. No, we are glad you are all here. And to your family, especially your wife, thanks so much for your willingness to share your husband and, to the children, to share your father with our country. It is a critical time and an important time, and we are deeply grateful to each of you for your sacrifice and for your willingness to miss a day of school. I know my boys—my boys are a little bit older than you—would not be as well behaved, and they are wonderful boys, but they would have appreciated the chance to miss a day of school. I know that.

Senator Martinez has left, but he has offered whatever assistance he can to you as you settle into this new position for which I think we all believe you will be confirmed. And he is quite serious in that offer, a good mentor. He is a good colleague for us, but a good mentor for anyone who has been nominated and will have a chance to serve as HUD Secretary, and I would urge you to take him up on that.

When you and I met, I indicated that if you are confirmed, I suspect that there will be a number of senior positions at HUD that may be vacant at this point in time. I am not sure that that is the case, but there may be some, and there may be some that require Senate confirmation. Have you had a chance to look at the landscape and see if that is the case or not?

Mr. PRESTON. I think that there are four open positions. I believe that there are three nominees right now in place for them.

Senator CARPER. All right. So three out of the four, we have nominees?

Mr. PRESTON. Yes.

Senator CARPER. I will do some checking to see if we schedule hearings or see where we are. But I think one of the things that we have to do is to move expeditiously to make sure you have the team around you. Whether you are HUD Secretary for 8 months or 8 years, we want to make sure you have the human resources and the help to get off to a good start.

Mr. PRESTON. Thank you.

Senator CARPER. Let me just ask you, and this question may have been asked of you already, but just talk to us a little bit about how your experience at SBA—some people had real doubts about my ability to be Governor or to be a Senator, and I hope I have addressed some of those, at least some of those questions that people had of me with my service in those roles. But there may have been some people who had misgivings about your ability to do well at SBA. You have obviously done very well. What were some of the lessons that you learned at SBA in your experience there providing leadership and helping to take that agency to a higher level? How does that experience inform and improve your ability to do well in this role?

Mr. PRESTON. Well, I think there are—just let me give you sort of a short list of things I would highlight.

First of all, I think as a leader of any organization, you have to be very clear about the mission of the organization, where the team is heading, and ensure that people are going with you. And there are a number of ways to do that, but that was very important for us at the SBA.

Second, you have to dig deep enough into what is happening in the organization to understand what the impediments are to getting there. In many cases, you are looking at operational processes. In many cases, you may have program impediments. In many cases, your employee base may not be trained or have the tools to deliver.

So we focused very heavily on designing very specific initiatives that we felt were required to help us reach those objectives, No. 1, and we put in place tracking tools, we put in place a management structure to manage those initiatives, and we held people accountable for them.

Second, we worked very hard to understand where the employee base had needs. We had very significant training needs. People were not in the right places, and we were not communicating with our people well enough. And to the extent that you do those things, the employee base really kind of rises to the occasion. I think that has been one of the most exciting things for us. And then you have to hold people accountable through the process.

The last thing I would say is it is very important in an organization when you are making progress, to celebrate that progress, to thank people for the progress, and to engage them in that. And so I can get into how we got metrics and how we reengineered processes and all kind of the detailed stuff. But I think it really hangs on a few principles.

Senator CARPER. Thank you. I do not know if you—you are not confirmed, and this may be putting the cart before the horse, but if you are—as I said before, I think you will be. But if you are, talk to us a little bit about what—since you do not have—you may not have but 8 months in this role. Talk to us about how—what your first 30 days might focus on, maybe your first 60 or 90 days. Just give us an idea what your initial priorities have to be.

Mr. PRESTON. Well, I think one of the most important things for me to do right off the bat is to get in front of the employee base. A large employee base needs to know who their new leader is, what that person stands for, what that person believes in. When I came into the SBA, the first day I walked in the door, I cut an employee video that was broadcast nationally the next day, and so I would hope to do something similar to that at HUD.

Second, very quickly, what I have found is most of the best ideas are already out there somewhere. They are either with your employees, they are with the people that care about your programs, they are with the people that you serve. So I would hope to get out and about and listen very hard to what other people think we need to get done.

And the third thing I would do is I would take all that information and would hope to work with the leadership team there to kind of begin to lay out the path forward.

The other thing I would highlight is we have a lot on the table, on the legislative agenda right now, and if things move quickly with my confirmation, I think I will be coming right into the middle of that. I think I need to be a great partner for this body. I think I need to be an important voice within the administration on the issues we face. And I would look forward to being a collaborative, you know, new, fresh partner in that process.

Senator CARPER. Good. Let me just mention that—Delaware is in Region 3, and the Region 3 offices are up in Philadelphia. We have had just quite a positive relationship during my time in the Senate with the folks at Region 3, but also a woman who runs HUD's operation in Delaware, her name is Diane Lello. I think it is L-E-L-L-O. But I know at SBA one of the things you did is you looked out around the country at some people who were doing an especially good job, and you were not shy about bringing them into other positions. And you just need to know you have got a good operation in Delaware in our part of Region 3.

Mr. PRESTON. That is good news.

Senator CARPER. You may want—feel comfortable relying on them.

The last thing I would ask is—Senator Martinez has offered his help. He has already provided some guidance and assistance and counsel. What can the rest of us do to help you? We want you to be successful. We want HUD to be successful. And, again, whether you are there for 8 months or 8 years, what can we do, aside maybe from confirming your nomination? Does anything else come to mind?

Mr. PRESTON. Well, one of the things, I think the most important thing is many of you have already begun to share with me your recommendations, your concerns, where you see the opportunities are. I know that you and your staffs have done a lot of work to sort of develop those issues.

One of the first things I did when I came to the SBA was get down to the Gulf because of the disaster loan problems we had, and one of the most important conduits of information to me in those visits were people's staff. You all get phone calls all the time from your constituents. You all are a—you know, you all have over the last 2 years for me been an incredibly effective conduit of information. And I have really valued my relationships with people in the Senate and their staffs because frequently you all see things before we see things. And so it is really twofold:

No. 1, when you know something, I want to know, because sometimes little problems within individual constituents are reflections of much bigger problems, and when we start kind of peeling away the paint a little but we find something behind it that we can address.

Second, to the extent that you understand sort of the depth of an issue or the challenges that we face, I would love to meet with you and your team to get the depth of that insight, because I will potentially have a very short tenure. I think it is going to be very important for me to hit the ground running and figure out really what is at the top of the list for the next 8 months and get on the path of making it happen.

Senator CARPER. Good luck. Thanks very much. Again, a real pleasure to meet your family.

Mr. PRESTON. Thank you.

Chairman DODD. Thank you very much, Senator, and I would just note to my colleagues, there was a quorum call, but I am told there are going to be some votes beginning around 11:30, and so I appreciate that, Senator Carper, very much.

Jack Reed, we have been talking about you in your absence.

Senator REED. I am here to restore my reputation.

[Laughter.]

Chairman DODD. You do not have to. It may just go downhill with so many glowing things that were said about you.

Senator REED. I should rest my case?

Chairman DODD. Rest your case.

Senator REED. Thank you very much, Mr. Chairman. And welcome.

Mr. PRESTON. Thank you.

Senator REED. We have been over the last few weeks, under the leadership of Senator Dodd and Senator Shelby, able to accomplish something which we hope will rapidly become law with respect to foreclosures, and just to note that house prices have fallen 3.1 percent in the last quarter. Sales of existing homes fell in 43 States. In California and Nevada, it is an 8-percent drop, significant, and it is estimated that mortgage originations this year will drop 18 percent. This is the crisis in the housing market, and you are going to be the principal housing official in the Cabinet of the President.

My general question is I would hope by the time or shortly after you take over, you will have new legislation to implement, but I would hope that your top priority would be to deal with this housing crisis, implementing legislation that is passed, giving the FHA—and I see the Commissioner—the power and also not just the theoretical power but actually get down and start helping people. Is that your intent?

Mr. PRESTON. Yes, you know, let me just mention one example. We have talked a lot about the disaster program at SBA, but when we came into that crisis, we brought the entire leadership into a room. We had a 3-day lockdown. We actually started it with a video of people telling their stories about how tough it was to do business with us. And I was directly engaged in mapping out new processes, changing policies, dealing with technology issues. I expect to be a very engaged leader on the ground with the team as we look at any operational issues.

Senator REED. I know there are limitations in terms of your involvement in current operations, but are you accumulating a list of advice that you can implement immediately without new legislative authority, you know, feedback from people in the field as to how you can make the program better, all these programs better?

Mr. PRESTON. Yes, that is something I would expect to do very shortly. I have asked a number of the people I have met to provide me with that list. I have asked them to provide me with a list that helps me understand what is an operational solution and what is a regulatory solution, and then begin thinking about the impact of the recent legislation—the potential legislation that we see. And I would expect to expand that very shortly after coming into the role.

Senator REED. And will you establish at least an objective goal of helping so many households, something tangible that you can measure and you can encourage your colleagues at HUD to strive for?

Mr. PRESTON. I think that is an important thing to—I am not exactly sure what that goal should look like, Senator. I think in any initiative, having very clear goals in place and measuring those and looking at them consistently with your leadership team is im-

portant. I just do not know what the exact goal would be specifically. And certainly to the degree that you would have advice on that, I would look forward to hearing it.

Senator REED. I think one of the observations is that there are many well-intentioned initiatives, but the endpoint is some generic helping people or helping et cetera, et cetera.

Mr. PRESTON. Sure.

Senator REED. And there is not a specific kind of calculation of if we can help 100,000, then we have succeeded; if we are only helping 20,000, we have not. So it is hard to quantify, but I would suggest that if you drive that analysis to measurable points, it would be helpful.

Let me just turn quickly, because the next major task I think you have is really to start—not just assembling but working through the budget of HUD for the next fiscal year, and there, there are some issues. I will just make the point I believe that the efforts with respect to lead prevention, lead mitigation have been very important at HUD, but they are underfunded. So I hope you would look very closely at that. And as some of my colleagues might have mentioned, Senator Allard and I have a homelessness bill which we hope is law and we hope it gives you additional tools. But that is another area I would hope that you would devote yourself to in the next few weeks and months in terms of policy and budget priorities. Good luck.

Mr. PRESTON. Thank you.

Senator REED. Thank you, Mr. Chairman.

Chairman DODD. Thank you very much, Senator Reed.

I just have one additional question I wanted to raise with you, and it is one I would like you to get back to the Committee about as soon as you can once you are confirmed. There have been some articles written about reportedly staff concerns were sort of dismissed out of hand regarding contracts. You may have seen the article yourself in preparation for being here this morning. It provides some details about contracts given to companies with ties to HUD officials over the objections of HUD staff. And we have heard similar allegations in the past and so forth, but apparently this seems to be ongoing, at least as I read the article. And if it is, obviously you are going to want to get your—find out about it very quickly, I would presume.

Mr. PRESTON. Yes.

Chairman DODD. And this Committee would like to know as well what your observations are and whether or not this problem is as serious as the articles indicate it may be and what steps you are going to take to remediate it as soon as you could.

Mr. PRESTON. Certainly.

Chairman DODD. So I will not dwell on it. I do not expect you necessarily to have detailed knowledge about it today, but I would expect you to be able to respond very quickly. And if we can, maybe Senator Shelby and I will prepare a letter to ask you about it, but I will make—in place of a letter, I am asking about it today on the assumption you are going to be confirmed, and if you are, we need to find out and get to the bottom of it.

Mr. PRESTON. Right.

Chairman DODD. With that, I appreciate you being here. Again, my congratulations to you, and all of us mean this. It is not easy to step up and serve in the public eye today in these appointed positions. And so I admire anybody who is willing to do it, step out of the private sector to come and do this.

Mr. PRESTON. Thank you.

Chairman DODD. And I want to echo the plaudits that have been given to your wife and your family as well. It is not easy duty, and I am very impressed. I do not know what your other two siblings are like, but they must be the raucous ones.

Mr. PRESTON. There is a reason they are not here.

[Laughter.]

Chairman DODD. You do not let them out in public, is that it? You keep them boxed up at home?

Well, anyway, we are delighted to have you with us, and we will try and move this as quickly as we can, but thank you very much for being with us.

Mr. PRESTON. Thank you.

Chairman DODD. I will leave the record open because there are Members who are not here, and we scheduled this fairly quickly and had to change the schedule. But Members may have some questions, and if they do, we would like you to respond to them very quickly.

Mr. PRESTON. Thank you. Sure.

Chairman DODD. The Committee will stand adjourned.

[Whereupon, at 11:38 a.m., the hearing was adjourned.]

[Prepared statements and responses to written questions supplied for the record follow:]

**Opening Statement of the Honorable Steven C. Preston**  
*Nominee, Secretary of Housing and Urban Development*  
**U.S. Senate Committee on Banking, Housing, and Urban Affairs**  
May 22, 2008  
*As Prepared for Delivery*

Chairman Dodd, Ranking Member Shelby, members of the Committee, it is an honor to be here to discuss my nomination to be the next Secretary of Housing and Urban Development.

I appreciate the speed with which you have scheduled this hearing. I am also grateful for the time so many of you have spent with me over the past few weeks to share your views, concerns, and recommendations. Let me say that if I am confirmed, I intend to keep the lines of communication and consultation open, and to work as a partner with Congress to address the nation's housing and urban issues.

There are few issues more pressing today than the challenges we face in the housing and mortgage markets. If confirmed, I will work collaboratively with you to address those issues while continuing to advance the dream of homeownership and ensure that Americans have decent, safe, and affordable housing.

Before I go any further, I would like to introduce my family. I am joined by my wife, Molly, and three of my children: Anna, Madeleine, and Gibson

**MANAGEMENT EXPERIENCE**

We all understand how critical leadership is in times of great need—especially when bold measures are required—and how important management depth is in leading large organizations effectively.

As many of you know, I spent 24 years in the private sector in financial and operational leadership positions in organizations as large as 75,000 employees.

Most recently, my SBA team and I have spent nearly two years reforming and revitalizing a federal agency that faced numerous challenges in its ability to serve America's entrepreneurs and disaster victims.

SBA makes low-interest loans to disaster victims—mostly homeowners. I came to SBA 11 months after Hurricane Katrina. At that point, the agency still had over 100,000 disaster victims in its loan process who were desperate to get their lives back on-track. We also had a great urgency.

Immediately after coming to the agency, my team dug deep into our operations and identified issues leading to high error rates, steep backlogs in critical processes, and decision-making bottlenecks. While we learned a lot from looking at data, we learned

more by interviewing our employees on the front line, and even more by listening to the stories of disaster victims who were dealing with SBA.

Connecting individual stories with operational problems helped us address the right issues, and connecting the real-life challenges of Katrina victims with the piles of uncompleted work helped re-energize our organization to work with urgency and resolve.

We quickly launched a completely reengineered operation to give disaster victims more personal, hands-on assistance through case managers, while also streamlining our processes, and addressing production and technology problems behind the scenes. As a result of the changes we made – and in only four months -- we reduced backlogs by more than 90 percent and cut the age of the backlog from 2½ months to 10 days in our area of greatest difficulty. Today, SBA has disbursed more than \$6 billion in disaster recovery loans in the Gulf which is helping more than 100,000 home and business owners rebuild their lives.

Since then, we have made similar changes in programs throughout the SBA – what we have called our Reform Agenda – to improve service, streamline operations and increase transparency. These changes are helping small businesses get capital, training, and access to federal contracts.

We have also focused heavily on providing our employees with better training and tools, and making SBA a better place to work. When I arrived, SBA's employee morale was rated 30<sup>th</sup> out of 30 among major federal agencies. One year later, our survey showed strong improvements in virtually every category with our most dramatic gains in areas relating to leadership and workforce effectiveness.

#### Qualifications

I would also like to link my background more specifically to HUD. As I consider the issues facing the country today, the head of the Housing and Urban Development Department will need to be able to address:

- a turbulent housing market and its impact on the economy;
- related issues with financial institutions and capital markets;
- the issues that individual homeowners face;

as well as

- issues facing specific communities with housing developments and affordable housing
- the ongoing challenge of homelessness;
- agency management and performance challenges.

I have spent most of my career in the private sector in financial and operational leadership positions with large companies. My background has given me the tools and

hands-on experience to handle the broad spectrum of complex issues that the next HUD Secretary will face.

After completing my MBA at the University of Chicago 25 years ago, I worked for a decade in investment banking, advising major corporations on strategy, working extensively with U.S. and international capital markets, and structuring complex financial transactions.

I then moved to Treasurer, Chief Financial Officer, and operational roles at two multi-billion dollar companies, working extensively on improving service quality, managing the work force effectively, as well as regulatory issues and complex financial, strategic, and technology issues.

As SBA Administrator, I oversee loan guarantee programs similar to certain programs run by HUD. Much like HUD, SBA lending programs reach people who are underserved by traditional markets. More than 28 percent of SBA guaranteed loan dollars go to minority owned small businesses, compared to 5 percent of conventional small business loan dollars – meaning that SBA guaranteed loan dollars are more than five times as likely to go to minority-owned businesses. In addition, more than 16 percent of SBA guaranteed loan dollars go to women -owned businesses, compared to only 4 percent of conventional loan dollars.

An important SBA goal is to expand business ownership, much as one of HUD's goals is to sustain homeownership. SBA is a critical source of economic support to communities recovering from natural disasters, just as HUD provides disaster housing assistance and other support in times of need.

SBA also helps small businesses affected by the decline in housing prices. Home equity has traditionally been an important source of funding or collateral for small businesses seeking to form or expand. SBA has aggressively expanded its outreach to banks around the country to assist them in adopting SBA guaranteed lending programs to support small businesses who may no longer qualify for traditional loans.

#### UNDERSERVED

On a more personal note, I am here because the issues HUD addresses are important to me. I left the private sector and came to Washington because I wanted to use my experience to make a different kind of contribution.

I believe deeply that individuals are better off and communities more stable when more people own their own business, or home, or can create a nest egg. To me, this is the root of sustainable progress against poverty and the heart of genuine compassion.

I have also come to realize that while all the talk earlier of business and metrics and operational reform may sound dry, it's actually another central part of true compassion.

I learned in working with Katrina victims that people generally come to government because it's the last resort – they are stressed, upset, in need. The most compassionate response at that moment is service that is efficient, professional and courteous. The recipients of government services – especially those in need – deserve better than what they all too often get. That is part of my vision for government service.

At SBA, we have focused heavily on initiatives aimed at underserved urban and rural markets. We have designed more relevant products, expanded outreach, and focused agency goals to support small businesses in underserved communities. Energizing entrepreneurship helps these communities by bringing lasting, sustainable economic activity that creates jobs, and generates investment in the communities across our country that need it most.

Earlier this year, SBA launched its Emerging 200 initiative to identify high potential, inner-city businesses and provide them with the training and resources to reach their full potential. Eleven cities are participating in the program.

In addition, the agency has established a pilot with Operation HOPE, Inc. in Harlem to provide training, counseling and business education. We hope to expand it this year. SBA is also partnering with the Initiative for a Competitive Inner City (ICIC) and Bank of America Capital Access Funds on Inner City Capital Connections to stimulate capital flow to underserved inner city markets. I'm proud that SBA received the 2008 National Inner City Economic Award for its dedication to promoting free, competitive enterprise, particularly in inner cities.

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Mr. Chairman, Ranking Member Shelby, and other members of the committee, I believe my record shows a deep commitment to the needs of hard-working Americans and institutions such as HUD and SBA that can help them improve their lives. I believe I have a proven history of successful change management at large, complex organizations. And, I have a track record of working with urban communities to improve their economic conditions and their quality of life.

I also believe my record indicates a commitment to transparency, accountability, and bipartisan cooperation. If confirmed, I will look forward to working with the Committee to continue efforts to resolve the nation's housing crisis, support people in their time of need, and ensure we have a Department of Housing and Urban Development that serves the country effectively at this crucial time.

Thank you and I look forward to your questions.

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**RESPONSE TO WRITTEN QUESTIONS OF SENATOR DODD  
FROM STEVEN C. PRESTON**

**Q.1.** There have been a number of reports that under your leadership, the Small Business Administration would not disclose information about the companies awarded small business contracts, and that this was done because small business contracts were going to large firms. According to the American Small Business League, as well as investigations by various news outlets, Fortune 500 firms receive billions of dollars in small business contracts. In addition, the American Small Business League has said that although an annual recertification of companies was endorsed by the Inspector General at SBA, the Office of Federal Procurement Policy and the OMB, you implemented a 5-year recertification process, which would allow the government to report awards to large companies as small business contracts for 4 additional years. Mr. Preston, can you respond to this?

**A.1.**

PART A

During my tenure at SBA there has been a significant increase in transparency, accountability, and integrity of data in federal contracting well beyond where it has been.

1. In September 2006, the Office of Management and Budget and SBA required agencies to review their 2005 procurement data, identify discrepancies, and correct the records, as necessary. This process was completed in March of 2007. During this clean up process agencies found \$4.6 billion dollars that were "miscoded" as small business. On August 17, 2007, SBA re-issued the FY 2005 Small Business Goaling Reports which correctly reclassified the \$4.6 billion as other than small.

2. In 2007 OMB began to require that agencies establish comprehensive data verification procedures and that they certify data accuracy and completeness to the General Services Administration each year. The statements of data verification and validation must be submitted to OMB.

3. All contract data is now available to the public at [www.usaspending.gov](http://www.usaspending.gov).

4. Last summer, SBA issued the first Small Business Procurement Scorecard. The Scorecard is modeled after the one used to track the President's Management Agenda. Notably, the scorecard includes an element addressing agencies efforts to ensure data integrity and is the first time agencies' contracting work has been graded publicly.

5. Also last summer, the federal government changed the rules to require companies that become large through merger or acquisition to say so officially. Under these rules, the contracts they hold can no longer be counted by federal agencies as small business contracts.

What has been happening in federal contracting since the mid 1990s is that a large volume of federal contracts awarded originally to small companies have been taken over by large companies that have purchased or merged with the small companies that originally won those contracts.

The difference between this and the government supposedly diverting small business contracts to large companies is important. These contracts were awarded to small businesses, some of them as set-asides, but most of them in full and open competition. About 20 percent were “set aside” for small businesses, but the rest were won by small companies in full and open competition.

Over time, those small businesses merged with or were acquired by large businesses—it’s a common business strategy for both small companies and large ones. As a result, the contracts originally awarded to small businesses are recorded in the federal database as being owned by large companies.

Because of the rules that were in place at the time—under my leadership we changed them—the federal agencies that awarded those contracts were allowed to continue to count them toward their goals as contracts that were awarded to small businesses.

Under the old rules, federal agencies that awarded contracts to small businesses, whether it was through set-asides or full and open competition, were coded as small business through the life of the contract, whether the vendors remained small, grew to be large, or were acquired by large firms.

This became a problem when the length of contracts increased from an average of five years to 20 years and beyond, and as acquisition of small firms became a major growth strategy for large businesses.

Therefore, last summer SBA enacted a rule to require periodic recertification of small business size standards on long-term contracts, and when ownership of any contracts, originally awarded to small firms, changes through merger or acquisition.

These regulations prevent agencies from claiming credit against small business goals for contracts that were originally awarded to small businesses that are no longer held by such firms. In turn, this will compel agencies to provide new genuine opportunities to small businesses in order to meet their goal.

Under the rule, which took effect July 30, 2007, any small business that merges or is acquired must immediately “recertify” its size. If the company is no longer small, the contract continues, but the federal government can no longer count it as a “small” contract. There are no responsible parties in the contracting discussion who have recommended taking contracts away from large companies which acquired them through merger or acquisition.

The new rules also require that all existing contracts over five years duration be modified to require small businesses to recertify their size status for acquisitions, mergers requests and to recertify their size status prior to an option being exercised. All existing contracts of less than five years must recertify when their first option is exercised. The vast majority of these contracts have one-year options.

Collectively, these measures will result in improved contracting data integrity. It may take time for the full benefits of these improvements to show results. But, we believe the data has been made substantially more reliable than that of prior years, and that with these steps, the quality of data will increase measurably each year, well into the future.

In regards to specific requests for contracting data, SBA has worked with the GSA, which controls this information, to see it is publicly available.

PART B

As with any public rule, the recertification rule was subjected to public notice and comment. The strong indication from the comment period—including substantial congressional comment—was that an annual recertification period would diminish small business growth and was too expensive and onerous for small businesses and federal agencies.

As mentioned above, the five-year rule applies to companies with current federal contracts that grow large over that period; for mergers, acquisitions or new contracts, the small business certification must occur immediately.

**Q.2.** In addition, can you tell us whether you released the list of actual recipients of federal small business contracts for 2005 and 2006?

**A.2.** Federal contracting data is neither managed by nor controlled by SBA. The General Services Administration maintains the Federal Procurement Data System-Next Generation, which is data repository of record. All information in FPDS-NG is available to the public.

SBA has assisted people who desire such information by describing it in public forums, providing a link on its web site, and in certain cases (as in the case with ASBL) actually obtaining that information and providing it to the party.

**Q.3.** Mr. Preston, last year, the U.S. Women's Chamber of Commerce complained that a proposed rule published under your leadership would have made it more difficult for women-owned businesses to receive contracts. They also put out a statement to say they were alarmed by your statements, which they believed misrepresented the findings of reports on which the proposed rule was based. Mr. Preston, did you follow up with the Women's Chamber of Commerce after this dispute, and was the proposed rule implemented or were changes made?

**A.3.** The proposed set aside rule for Women Owned Small Businesses (WOSB) in no way restricts federal opportunities available to WOSBs, but rather expands them. Today, there is no ability for WOSBs to received set-asides. The proposed rule would enable WOSBs to benefit from those set asides in four industries. In 2006, federal contracts to WOSBs reached a record level (\$11.6 billion) and achieved record growth (\$1.5 billion) in part due to the efforts of SBA.

Prior to my arrival at the SBA, the Women's Chamber of Commerce initiated a law suit against the SBA which is ongoing. At the advice of counsel, we have not deemed it appropriate for a direct meeting to take place. SBA has considered testimony by the Women's Chamber of Commerce and will consider any response they make in the federal rulemaking process.

I and my team understand the details of the reports very thoroughly and I am confident that our statements reflect both the factual information and their implications for the rule.

**RESPONSE TO WRITTEN QUESTIONS OF SENATOR DOLE FROM  
STEVEN C. PRESTON**

**Q.1.** Administrator Preston, as you might be aware, HUD has proposed revisions to their regulations on the Real Estate Settlement Procedures Act (RESPA) by a lengthy proposed rule to simplify and clarify the real estate transaction to make it more understandable to consumers. The proposal seems to make the transaction more complicated, adds additional layers of disclosures, and may severely burden small businesses. Additionally, this proposal seems like it would transform the closer from an independent third party fiduciary to the transaction into an agent to the lender. Administrator Preston, if you are confirmed as the Secretary of HUD would you look into some of the ramification of the proposed RESPA regulations and make changes to this regulation if needed?

**A.1.** Yes. With the extension of the public comment period to ninety days, HUD expects to receive a vast amount of public comment. If confirmed, I will work with staff to take each comment into serious consideration.

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**RESPONSE TO WRITTEN QUESTIONS OF SENATOR TESTER  
FROM STEVEN C. PRESTON**

**Q.1.** As you may know, HUD recently sent letters to tribal leaders that provides information about the annual Indian Housing Block Grant (IHBG) formula allocation; funds that Congress appropriates to address the housing needs of all 562 tribes nationwide. The March 24, 2008 letter states that HUD plans to withhold nearly \$20 million of the allocations to pay for “preliminary relief for plaintiffs that have filed suit against the Department regarding their Formula Current Assisted Stock (FCAS) count”. The letter identifies 17 tribes as plaintiffs or potential plaintiffs.

From this language, it appears that pursuant to the decision of *Ft. Peck Housing Authority v. HUD*, 435 F.Supp. 2d1125 (D. Colo. 2006), HUD anticipates losing similar cases filed by those 17 tribes. I understand the anticipation. However, I am concerned that this action effectively punishes every tribe in the nation because 17 tribes are seeking to uphold their legal rights recognized by the *Ft. Peck* decision.

Can you please identify alternative mechanisms to pay for the judgments without negatively impacting Indian tribes nationwide? Do you agree that use of Indian Housing Block Grant dollars is an appropriate way to address this longstanding disagreement?

**A.1.** I am not familiar with all of the details of this situation, but if confirmed, I will consult with HUD’s Office of the General Counsel and report back to you promptly. And if confirmed, I look forward to working closely with you and your staff to more fully understand this issue, and your concerns.