

THE SECTION 8 VOUCHER REFORM ACT

HEARING

BEFORE THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

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THE SECTION 8 VOUCHER REFORM ACT

Thursday, May 21, 2009

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 2:35 p.m., in room 2128, Rayburn House Office Building, Hon. Barney Frank [chairman of the committee] presiding.

Members present: Representatives Frank, Waters, Velazquez, Sherman, Moore of Kansas, Baca, Miller of North Carolina, Scott, Green, Cleaver, Klein, Donnelly, Carson; Biggert, Miller of California, Capito, Price, McCarthy of California, Jenkins, Lee, Paulsen, and Lance.

The CHAIRMAN. The hearing will come to order.

We are very pleased to be joined—and I think this is his first appearance before us—by the Secretary of Housing and Urban Development, Secretary Donovan. He is someone familiar to many of us because he was, for years, in the City of New York a leading housing administrator, and he comes to this job—I believe Mel Martinez, who was the first Secretary of HUD under President Bush, graciously noted that Secretary Donovan came to the job far better prepared than he, and I think far better prepared than any other Secretary.

We are very happy to have him, and we have already begun a very fruitful collaboration. The bill we sent to the President this week involving mortgages and housing was at the very last minute improved by suggestions dealing with the second mortgage situation. So we are very pleased to have the Secretary here.

And I will also inject a personal note to say that this is at least one of the first hearings when the Assistant Secretary for Congressional Relations, Mr. Kovar, is with us, who was previously my administrative assistant/chief of staff. So he is also familiar with much of the business of the committee and the members.

Mr. Secretary, we appreciate having you here. The particular issue is the Section 8 Voucher Reform Act. It is one in which there has been a good deal of bipartisan cooperation. We had a version of this, I believe, that passed last year. We are back at it, and I am very pleased that we have the opportunity to begin this hearing with you on this subject. We think that this is a piece of legislation that significantly improves an already well-run program and a very important program. And it is essential that we update things, and that is essentially what this is. So I welcome you.

And I will now recognize the ranking member of the Subcommittee on Housing, the gentlewoman from West Virginia, Mrs. Capito.

Mrs. CAPITO. Thank you, Mr. Chairman. Thanks for holding this important hearing on the Section 8 Voucher program.

Secretary Donovan, we are really glad to see you here today. I want to congratulate you on your new position as the Secretary of HUD. You certainly have your work cut out for you with the many challenges we have on a variety of issues.

Today's hearing focuses on the Housing Choice Voucher Program, or Section 8, as we call it and as it is more commonly known. The Federal Housing Voucher Assistance Program provides assistance to approximately 2 million low-income families and individuals each year and is administered by more than 2,500 local Public Housing Authorities.

As you know, this is not the first time that we have tried to reform Section 8. The chairman mentioned that we grappled with these issues over the last two Congresses, and we worked with this in a bipartisan manner to make this program more efficient and more cost-effective. Unfortunately, we haven't gotten all the way through. So reforming Section 8 is critical to both the future of the Program and to the HUD budget in general.

Over the last several years, the cost of the Housing Choice Voucher Program has continued to increase. In 1998, the Housing Certificate Fund consumed 42 percent of HUD's annual budget, but by 2005, it was consuming 62 percent of HUD's budget. And the new Administration's budget envisions additional new vouchers and several changes to encourage PHAs to use their reserves and to put out as many vouchers on the street as possible.

While I understand the importance of this program to many families, and it serves millions of families, I remain concerned about the long-term costs associated with new vouchers and the impact the Section 8 funding costs will have on the overall HUD budget and the many other programs within the HUD budget.

In addition to Section 8—you knew I wasn't going to just talk about just Section 8—HUD faces other challenges in other areas, such as the future viability of the FHA program. The Fiscal Year 2010 HUD budget requests \$798 million in credit subsidy for the Reverse Mortgage Program, an important program for HUD and for those that provide equity for seniors seeking to stay in their homes. Many reverse mortgages were made in an appreciating market, but they are now being paid out in a depreciating market that ultimately would have serious implications, I think, for the solvency of the FHA. I have heard some refer to this Reverse Mortgage Program as the next housing crisis, and I would like to get your comments on that later on in the hearing.

In addition, many of the mortgage origination recovery efforts have fallen on the FHA program due to the fact that the standard conventional mortgage markets are not functioning at normal capacity. Lenders are understandably skittish about making loans in a depreciating housing market, and consequently, lenders are gravitating to the FHA program, seeking the 100 percent government guarantee on the mortgages they generate.

Transparency and accountability of the counseling programs are important to me—we had a hearing with the counseling entities last week—and the newly established Neighborhood Stabilization Program are important and require your attention and diligence. These programs have received huge cash infusions over the last couple of years, and we want to make sure that the taxpayers' money is being properly used to achieve results.

Finally, as you know, Representative Gary Miller and I recently wrote to you urging the monetization of the \$8,000 first-time home buyer tax credit subsidy currently available for FHA mortgages. There seemed to be more progress on the issue; however, there has not been a final rule, to my knowledge. It is my hope that we can continue to work together on this issue.

While I know we will not have time to discuss all of these issues, I trust that Chairman Frank is planning another meeting in the near future to give members of this committee the opportunity to fully discuss the challenges ahead for the Department.

Thank you again for being here and for your service. I look forward to working with you in your capacity.

The CHAIRMAN. The gentlewoman from California, the Chair of the Housing Subcommittee, is recognized for 4 minutes. She is a major author of this bill.

Ms. WATERS. Thank you very much, Chairman Frank, for convening today's hearing on the Section 8 Voucher Reform Act.

Last Congress, I introduced the Section 8 Voucher Reform Act. This legislation, which reformed and expanded the Section 8 program, passed the House on a bipartisan vote of 333–83. The Senate failed to take any action on this legislation. However, I hope, as we begin this process again, that we are able to provide a bill to the President for signature. This legislation has been a long time in coming, and it is badly needed by the 2 million low-income families who depend upon Section 8 housing.

Through the Section 8 Program, qualifying low-income families generally pay 30 percent of their income in rent; the Section 8 voucher covers the difference between that amount and the market rent. Although that explanation is simple, over the years, the Section 8 Program has become increasingly complicated for residents and the 2,500 PHAs that administer the program.

For example, in order to determine the amount of rent paid by a Section 8 resident each year, or at any time if there is the slightest change in income, the resident must submit various pay stubs, tax forms, and other documents to prove their income. This is required even for those living on fixed incomes. PHAs have to process this information in a time-consuming process that is fraught with errors. In fact, according to HUD, in 2004, over 40 percent of subsidies were erroneously calculated, meaning that the residents were charged either too much or not enough rent. The proposed bill would simplify this process by streamlining the rent determination process and requiring these certifications of incomes less often.

The proposed bill also addresses the funding formula for the Section 8 Program. Several years ago, the Bush Administration changed how vouchers were funded, providing a budget-based allocation instead of funding PHAs based on their actual cost. This has resulted in the loss of over 150,000 vouchers.

In addition, the change also puts stress on the ability of voucher holders to move, portability. The ability of a person with a voucher to move anywhere in the United States is essential for not only decentralizing poverty but also allowing voucher families to move closer to jobs, schools, and other opportunities. It provides them with the same freedom of movement that people living in non-subsidized housing enjoy. However, the cost of the shortfalls generated by the funding formula and the complicated billing process, PHAs must endure reported vouchers. Many PHAs began to severely limit the ability of voucher holders to move.

I am pleased that one of the first actions of the Democratic Congress was to correct this funding formula so that it more accurately reflects PHA costs. However, the Section 8 Program still has not recovered from the shock caused by the imposition of a budget-based formula. The legislation before us would establish in statute a sustainable and equitable formula that would ensure that PHAs have the resources they need in order to continue to provide housing assistance to those with vouchers.

While this bill is comprehensive, the draft we will be discussing today does not include the Moving to Work Program which allows about 30 PHAs to waive most of the rules that govern public housing in Section 8. Although the chairman and I have agreed that there will be a moving-to-work component to this bill, I have several concerns about the Moving to Work Program.

First, I am deeply concerned about the imposition of time limits and work requirements by Moving to Work agencies. For example, six agencies have time limits, and another four have work requirements. The success of these policies is unproven while their impact could be harmful to residents.

Second, I am aware that there has been a substantial decrease in the number of vouchers issued by Moving to Work agencies. According to one estimate, Moving to Work agencies have failed to lease up 24,000 vouchers, even when they had the funding for them.

Lastly, while Moving to Work has been in existence since 1996, there has never been a thorough evaluation of the program. In short, we don't know what works and what doesn't work. We don't know what is hurting residents and what could be helping them. We are hearing that many residents are distressed about the policies being implemented by Moving to Work agencies, and they are frustrated that these policies seem to go unchecked because of the lack of regulation of Moving to Work agencies.

So I look forward to hearing Secretary Donovan's views on these important issues, and I thank you. I yield back the balance of my time.

And, Mr. Chairman, may I just say that I am pleased that the Secretary is here today. He started his work; he has gotten off to a good start. He has been all over the United States, and so far he has done a good job.

The CHAIRMAN. The gentleman from Mr. California, Mr. Miller, is recognized for 2 minutes.

Mr. MILLER OF CALIFORNIA. Mr. Secretary, welcome.

And I think Chairman Frank is wrong; you do look older than 16, no matter what he says. We are welcome to have you here and look forward to working with you.

Over the years, we have debated the issue of downpayment, the difficulty individuals have with downpayments and the difficulty public housing has, whether it is government, private sector, non-profits, that try to provide that, and how it is provided to those who need assistance and how we get people out of public housing to homeownership, which is the goal of most individuals, and the concept of being able to accumulate Section 8 vouchers and use those for downpayments.

Mrs. Capito mentioned that we had sent you a letter talking about being able to use the \$8,000 tax credit to short-term bridge loans. You responded, I think, fairly favorably in your comments. And I hope you have time to address your intent or the Department's intent to move forward on this; and, if you think so, what is the timeframe for the Department doing that?

But we are at an unusual transition in this country where a lot of people are losing their homes, many people are out there trying to buy homes for the first time or just who have lost a home and trying to buy a home. And they might be very creditworthy, and we look to those who are creditworthy and say, how can we assist those individuals? I think we have done certain things, by eliminating downpayment assistance programs, whether it be seller-funded or other options we might have available to us.

We have, I think, in some cases, made it more difficult for people who really could make the payment if they could get in the house. And I hope in the future you think about options that are available to us on that and options about including the private sector. It is good to have the government involved, but how do you involve the private sector in dealing with the problem that deals with the private sector, those who need homes?

So I hope you take a broad brush and look at this and say, what options are available to us? How can we get the biggest bang for the buck? And that biggest bang would be not only including HUD's efforts but the private sector funds at the same time.

So I am looking forward to your testimony today, and I am looking forward to having an opportunity to ask you questions.

And you do look older than 16, I don't care what he says. Welcome. Thank you.

Ms. WATERS. [presiding] Thank you very much.

Mr. Green?

Mr. GREEN. Thank you, Madam Chairwoman.

Madam Chairwoman and Chairman Frank, there are times when indicating that you would like to associate yourself with the remarks of another is not enough. And on such occasions, persons such as the Honorable Emmanuel Cleaver, who is seated next to me, and I, we would probably say, "Amen."

And as to the Chair's comments, Chairman Frank's comments, I would like to simply say, "Amen."

And as to Chairwoman Waters' comments, I would like to say "A-woman," because I am greatly appreciative that she has given us a clear sense of vision and has been very helpful, as you know, Secretary Donovan, with a number of issues.

We are appreciative that you were able to come to Houston, Texas, and visit the Ninth Congressional District that I happen to represent. You were at the DHAP Center there, and Congresswoman Waters was very much instrumental in helping us to facilitate that visit. So I thank you, and I thank her.

And I am most appreciative for the fast start, the way you really hit the ground—actually, you didn't hit the ground running; you hit the ground flying, because you were trying to traverse the entirety of the country. And it seems to me that you have done a stellar job. So I thank you for what you have done thus far, and look forward to working with you.

And, Madam Chairwoman, I will give some time back to you. I yield back the balance of my time.

Ms. WATERS. Mr. Cleaver?

Mr. CLEAVER. Thank you, Madam Chairwoman.

And thank you for this hearing.

Thank you, Mr. Secretary, for being here. I think the Section 8 Voucher Reform Act is extremely important, and I am finally excited about the response that this committee is giving to the inconsistencies in the Section 8 Voucher Program. We have had problems that are now legend over the past few years.

This program impacts millions of people. Mr. Secretary, I lived in public housing. And I can remember my mother, father, three sisters, and me living in a two-room apartment, sharing the bathroom with another family living in a two-room apartment as we waited and prayed. I don't mean the kind of praying that they talk about on TV, like, "I am praying for you." I mean, we prayed that someone would come off the list so that we could move into the public housing unit.

My father worked three jobs. And I guess, sometimes, I get offended in this committee when I hear people put down people who live in public housing, and realize that my family lived in public housing, with my father working three jobs and my mother going to college and sending four children through college. So I do come with and I try to keep myself calm no matter what I hear. But we do have a problem.

Kansas City, Missouri; Independence, Missouri; Lee's Summit; the three largest cities in my district, we have suffered enormously, particularly when the Administration zeroed out in some instances, and in other instances just severely underfunded the housing programs. And so we are suffering from a wave of foreclosures like everyone else.

But if you look at what has happened with the people who are in public housing, or looking for Section 8 housing, some of them who have made it out of public housing, like our family eventually did, and then they were lured into some kind of subprime loan. And now, and this is not talked about enough, now they find themselves, after going into that first home with joy and pride, they find themselves now out again. And instead of looking for another home, they can't, because their credit has been ruined, and so they find themselves now standing in line again for a Section 8 voucher.

And so, Mr. Secretary, I am pleased that you are here. I think this is a very serious problem that I take very seriously and personally. And I know of your history and know that you take it very

seriously. So I am excited about what is going on, and I am so pleased that our Chair has pushed this initiative. Thank you.

I yield back the balance of my time.

Ms. WATERS. Thank you very much. There are no more opening statements.

And at this time, I would like to call upon our witness today, our only witness, the Honorable Shaun Donovan, Secretary, U.S. Department of Housing and Urban Development.

Welcome, Mr. Secretary. We are delighted that you are here, and we are pleased that you were able to make it on this day, your first hearing before this committee.

Thank you.

STATEMENT OF THE HONORABLE SHAUN DONOVAN, SECRETARY, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Secretary DONOVAN. Thank you, Madam Chairwoman.

Thank you to Chairman Frank as well as to Ranking Member Capito for a warm welcome and to all the members of the committee for having me here today.

I am very, very pleased to be here to testify on the draft of the Section 8 Voucher Reform Act, which is very, very important legislation, from my perspective.

Between the Housing Choice Voucher Program and public housing, HUD helps provide affordable housing to over 3.2 million very-low-income families. This legislation would be a key step in improving that assistance.

I agree that the Housing Choice Voucher Program needs to be reformed to specifically provide a predictable and improved funding formula for the Rental Voucher Program, to reduce administrative burdens on Public Housing Authorities and Section 8 landlords, and to provide protections to residents.

The following are aspects of SEVRA that improve the current program, and I look forward to working with the committee to reform the program.

First and foremost, SEVRA largely establishes a predictable, transparent voucher formula that will encourage PHAs to increase the utilization of funding. As you are well aware, beginning in 2003, Congress began to impose different renewal calculation formulas each year through the Appropriations Act in a bid to arrest the growth in cost to renew Section 8 voucher funding. These efforts did more than just arrest growth, but contributed to a slide in funding utilization, beginning in 2004.

While funding utilization has shown modest improvements in recent years, ensuring that renewal in 2010 will be sufficient to renew both incremental vouchers and the number of families that PHAs were actually assisting at the end of 2008 is a key component to not only stabilizing and continued improvement in voucher leasing as well as in utilization rates. The formula contained in this draft legislation substantially achieves these objectives.

SEVRA also provides HUD with the authority to reallocate excess funding among PHAs. This provision is long overdue. It would reward the PHAs that are high performers and will serve addi-

tional families by reallocating additional budget authority to those PHAs that will put the funding to use.

The formula also would allow HUD to make adjustments to the formula based on changes in voucher utilization rates and voucher costs related to natural and other major disasters. This in turn would give PHAs much needed flexibility to accommodate those situations where PHAs must adjust to situations out of their control.

I also applaud the draft bill's effort to reduce many burdensome requirements on PHAs and landlords while improving access to affordable housing for tenants. For example, the bill would only require biennial instead of annual inspections. This would allow PHAs to concentrate their inspection resources on the more marginal and higher-risk units but does not prevent them from performing annual inspections should they choose.

The bill would also permit PHAs to make assistance payments to landlords while the owner makes minor repairs in cases where the rental home failed the initial inspection for only non-life-threatening conditions. This change would expand potential housing opportunities for families and would be particularly helpful for families in low-vacancy markets.

The draft legislation also proposes to reform the current income and rent calculation system. This is a good thing, because these systems are overly complex and administratively burdensome. SEVRA would represent an improvement over the current system. The draft bill would allow PHAs to defer the income reexamination of families with fixed incomes for up to 3 years while imposing a simple asset cap for eligibility in lieu of the current complicated and burdensome computation of returns on assets from income.

Additionally, the earned income disregard provision will provide a positive incentive to reward working families and encourage self-sufficiency efforts on behalf of families. We look forward to working with the committee to further streamline rent structures.

Another item of interest is the administrative fee provisions. Administrative fees are a vital component of the Housing Choice Voucher Program. These funds provide PHAs with the resources necessary to administer the program. Approving units, evaluating tenant eligibility, and reviewing applications are personnel-intensive processes for PHAs. These fees are necessary to maintain an effective level of service delivery and ensure that the right benefits go to the right people.

The draft provisions would provide HUD the flexibility to utilize either a per-unit fee structure of the 2003 rates inflated annually or a HUD regulation that accounts for the costs of administering the Housing Choice Voucher Program and could include performance incentives. In fact, we have initiated a research study on administrative fees relating to the Housing Choice Voucher Program. Eventually, this study will help determine the distribution of administrative fees based on the number of families assisted by a PHA.

The provisions in this draft bill will not only fully fund administration of the Housing Choice Voucher Program in the near term but allow us to develop a more accurate distribution formula in the future.

Finally, I would like to take a moment to discuss the Moving to Work Program. I understand that the committee's commitment to MTW, or Moving to Work, is still under discussion, and thus this draft does not yet include provisions for the Program. I believe that all the other provisions of this draft, however, are testament to the need for flexibility and innovation that MTW has provided us. And that innovation cannot be confirmed or replicated, however, without rigorous research and study, such as we proposed as part of the HUD transformation initiative that is found in our 2010 budget proposal, and, of course, tenant protections that ensure families are benefited and not undermined by innovation.

For all of these reasons, I am optimistic about the efforts to reform the Housing Choice Voucher Program. I have long worked for passage of many of these provisions in the bill, and I am grateful to you for this opportunity to continue that work and look forward to taking advantage of your leadership in this regard. Thank you.

[The prepared statement of Secretary Donovan can be found on page 32 of the appendix.]

Ms. WATERS. Thank you very much.

I will now recognize myself for 5 minutes.

Secretary Donovan, last week, I was visited by a person who had received a voucher from the Atlantic City Housing Authority. While he was out looking for a unit to rent with the voucher, the Housing Authority cancelled his voucher, along with the vouchers of 150 other searchers. This person is now homeless and has no housing resources available to him.

I don't know if you have heard about this case up in Atlantic City. Did you find out, if you have heard about it, why the Housing Authority cancelled his voucher? Is this a funding issue or an administrative issue? And what is HUD going to do to make sure that person and others who had their vouchers pulled back will receive housing assistance? What legislation, if any, is needed to protect tenants in this regard?

Secretary DONOVAN. Thank you, Chairwoman Waters, for the question.

First of all, to the specifics of this case, we have begun investigating it. Thus far, what I would say is that what we have found shows us that there were significant administrative issues in the oversight of the program in Atlantic City, and that we will come back to you as quickly as we possibly can to give you a full report on what we have found there.

More broadly what I would say, though, is that there is the risk of a similar outcome for many families around the country for funding reasons, and specifically as a result of the inconsistency and the changes in the Section 8 voucher formula that we have seen over the past years.

In my prior role in New York, I oversaw the fourth largest voucher program in the country, and so I know very directly the experience of constantly changing rules and what that can mean for the ineffective management of the program and ultimately to the risk that families would not be able to use their vouchers should there need to be a rapid change in the number of families who can be served based on the funding formula.

So I believe many of the provisions in this bill, whether it be the stability of the funding system going forward, the 2 percent reserve allowance that can be used to give some more flexibility to housing authorities to better plan and manage the use of their program. All of those aspects of this bill can be very helpful in avoiding this kind of situation from happening more broadly.

Ms. WATERS. Thank you very much.

There is a section of Los Angeles County where the Section 8 residents are constantly singled out by law enforcement. As a matter of fact, when calls are made to the police, for example, when they come out, they ask people if they are on Section 8. In an attempt to try and get the Section 8 tenants out of the City, they harass them. Is there anything in HUD that deals with representing citizens who are being discriminated against, who are being put upon, who have been harassed by local authorities because they would rather not have them in their cities? Do you know of anything that is available to these citizens? Or should they try and go through the regular legal processes in order to try and receive some support?

Secretary DONOVAN. One of the most important functions of HUD is to enforce the Fair Housing Laws. And one of the things I am proudest of in our budget proposal this year is that we are proposing a substantial increase in funding for our enforcement of fair housing. So I believe that we should make sure that there is a partnership established. We have local fair housing partners across the country, including across California, and I think it is important that we ensure that those residents know the resources that are available to them, legal protections that are available to them should it be a case of discrimination against them, and that we would be happy to follow up with you about that issue.

Ms. WATERS. Thank you very much. It has been going on for some time, and I am thinking of holding a hearing in that area in order to go ahead and start to address these problems. But I thank you very much.

And with that, Mrs. Capito.

Mrs. CAPITO. Thank you, Mr. Secretary. I would like to ask a couple of questions that I alluded to in my opening statement.

First of all, let's talk about, just in general, the funding for the Section 8 Program taking up a really large part of HUD's annual budget, going from 42 percent in 1998 to as much as 62 percent in 2005. There is an expansion in the new budget of 2010. What is your opinion on this, or how are you feeling about the trend, and what do you see for the future of this and other important programs?

Secretary DONOVAN. I would like to make a couple of comments on that, because obviously, the cost of this program has been increasing, and I think there are a number of elements relative to that that are important.

First of all, I think this bill can contribute to helping to control the cost of administering and overseeing this program. One of the problems that we have seen with the program is the complexity, whether it is in the rent calculations or in a range of other areas. I believe this bill can contribute to significant cost savings in the oversight administration of the program.

One of the other things that has been contributing significantly to the increasing costs of the voucher program, much of that is driven by replacement vouchers, that replace either assisted-housing units that opt-out or leave the program as well as public housing units that leave the program. I think it is important—and in many cases, those vouchers can be more expensive than the funding that was required for the original public housing or assisted housing. So I think preservation efforts are quite important in terms of investing in existing public housing that is an important resource and being able to limit the growth of vouchers as a replacement for other housing that should be preserved.

Finally, I would say that I think we should and we will continue as we are doing in this, as you are attempting to do in this bill, to control the costs of the program to make the program more efficient. But I think, particularly at a moment where renters in particular have been hard hit by the foreclosure crisis, where unemployment and other issues are affecting not only owners but renters, one of the little known facts about the foreclosure crisis is that 40 percent of the victims of foreclosures who are evicted are renters.

And I am very happy that the President signed a bill yesterday that would protect those renters in the case of foreclosures. I believe that now is a good time for us to be investing in the Section 8 Voucher Program because it does provide a critical protection to families who are most at risk in these economic times.

Mrs. CAPITO. I appreciate that. Would it be a mistake to say that, once a voucher goes out the door from HUD, there is no pulling back on the numbers? I think that is pretty much a standard thought I would have. So I guess my follow-up question would be, as you are achieving cost savings through this bill and other methods, and I applaud that, I think it is great, I would assume that you are going to expand the playing field on the number of vouchers and the number of people who are going to be able to have a voucher. Would that be a correct assumption?

Secretary DONOVAN. In the end, obviously, it is up to Congress to decide the funding level for the program, which drives the number of vouchers that are used. We did actually see some years where the number of vouchers available shrunk over the past few years, largely as a result of the uncertainty in the funding formula. So ultimately we have proposed a budget where we would want to see the number of vouchers grow because we think that is appropriate at this time. We have long waiting lists and far fewer people able to use vouchers than are eligible. But ultimately the decision rests with Congress about the number of vouchers to fund, and the program can grow or, frankly, shrink as it has, depending on the funding.

Mrs. CAPITO. Right, and I am aware of the lists. That exists in my State.

Let me go back, this is on a different topic, one that Congressman Miller and I are concerned about, and that is the \$8,000 tax credit, whether it gets monetized for first-time homebuyers with FHA improved mortgages. Can you expand on that? I know you made some statements last week or the week before. Could you give us an update on that, please?

Secretary DONOVAN. Just generally, I would say that the Administration has been supportive of that, was supportive of it when it was included in the recovery bill. Secretary Geithner recently discussed the fact that already more than \$3 billion has been used to support that tax credit.

I am supportive of making sure that FHA can be part of helping families be able to become homeowners and, as you have rightly said, to be able to support the recovery of the housing market more broadly. We have some technical details that we have been working out, and frankly, we want to make sure that our implementation of this is consistent with HERA and other provisions.

We also want to make sure, frankly, that this is not something that is abused. We want to make sure that we are part of the solution with FHA and that we are bringing folks who are going to use the tax credit who might be at risk of some of the scams and other people who are trying to take advantage of the credit, we want to bring them into FHA and make sure that we do it in a way that protects against fraud and abuse. So we are finalizing those details, and I would expect to have something released very shortly.

Mrs. CAPITO. Thank you.

The CHAIRMAN. Mr. Secretary, first let me get to the question of whether Section 8 has been increasing part of the budget. Of course, there are two aspects of that. One is, has Section 8 gone up? The other is, has everything else gone down? I would be more impressed with an absolute measure, because we have had a period when much of the rest of the budget was reduced.

In part, Section 8 went up because there was a policy involved, which I very much agreed with, and I think you did, people in power who believed it, to shift units from the inventory of affordable units to market units occupied by a Section 8 tenant with an enhanced voucher. So when you let the unit go technically out of the affordable inventory and you then fill it with a Section 8 tenant with an enhanced voucher, two things happen: The Section 8 budget goes up; and the other part of the budget goes down. So, yes, I would like to see the Section 8 percentage be reduced partly by restoring funding to things like public housing and other efforts to build units that we have lost.

Now, I have one specific issue that concerns me—the gentleman from California has raised it as well, Mr. Miller—and that is the Catch-22 we have with condominium financing. Now, you have it at the FHA. You have it even more at Fannie Mae and Freddie Mac. We have policies that say you can't get financing for a unit in a condominium unless the building is 70 percent already owner-occupied finance. But then, because we have that restriction, you can't get them. So we never get there.

And the notion that qualified buyers who can meet every other test are turned down for financing, I think is unfair to the buyer, and is hurting us with the condominium piece. I thought that was going to get reduced to 50 percent. And I know Fannie Mae and Freddie Mac are not under your jurisdiction, but I do know that they respect, Mr. Lockhart and others, your housing expertise. I would strongly urge you to look at that policy because it is a Catch-22, and it is resulting in difficulty in getting that kind of financing.

I was also told particularly that there was some problem with the eligibility of units, three-decker units, which as you know is a very important form of housing in the New England area. So we are going to ask you to look at that.

Then the last point, just one question. I would assume we are in agreement that you presided very ably in a City where there was a good deal of affordable housing subsidized by the Federal Government, by the State government, and even sitting somewhat uniquely in New York with City funds. I believe that preserving that existing stock is the best use we can have of any given dollar, probably because by preserving existing affordable units, you get away from the whole question of where do you build it and people who don't like you living next door to them.

So I do want to note, the argument that if you have affordable housing built in your neighborhood, that ruins the neighborhood, is somewhat undercut by the fact that our biggest problem with that kind of housing now is that the people who used to object to it, at least the same kind of people, now want to move into it and bid the poor people out.

I just want to note, in the City of Boston, on the corner of Arlington and Tremont Streets, there exists one of the first of the 221(d)(3) projects, the Castle Square project, which has in the middle of it an elderly housing public housing project. And so this is affordable housing and public housing.

Across Tremont Street is Atelier, where I think the monthly fee for concierge services is greater than the rent you pay for the whole shebang across the street. So we have, across the street from one of the oldest 221(d)(3) public housing combines, private residential housing that is as expensive as any I think in the country, and certainly in Massachusetts.

I wonder, the preservation, the only question would be this. Much of it was Federal. The practice in the past has been to focus on preserving the federally funded part. But we are not just doing this because of our previous investment; we are doing this to protect housing units.

Can we be working together so that we expand these programs so that the role of the Federal Government is to help preserve that affordable inventory no matter how it was originally financed, that we work, whether it is or Michelama or Mass Housing or any of these other? And I would hope we could agree that we could do that. As I said, dollar for dollar and in terms of politics of location, preserving existing affordable units, and that is, again, why we have a higher budget for Section 8.

The policy previously of the Administration and the majority in power from that period was: Don't preserve the units; just give the tenant an enhanced voucher until either she dies or moves.

I would like us to get into the preservation of units, and include units no matter how financed.

Secretary DONOVAN. As you rightly say, Mr. Chairman, that is a very, very important resource in certain parts of the country. It is a resource that I know very well from my own experience in New York.

What I would say is a couple of things. First of all, we have a lot of work to do, I think, at HUD. And you and Chairman Rangel

have already begun down that path to make all of our programs work more effectively together. One of the big barriers to this is that we have too many different sets of rules, even within the Federal programs, much less the flexibility to allow the Federal programs to work effectively with State and local programs. And I think this also goes to Ranking Member Capito's point about the cost of our programs.

Frankly, we are spending too much on administration and legal fees and other parts of the programs because of the complexity and the lack of their ability to work together. So one of my priorities is to try to simplify, as you are proposing to do here with the Section 8 Voucher Program, to simplify more broadly the program so they can work more effectively and more flexibly together.

The CHAIRMAN. I apologize. I thought the gentleman from California already asked his questions.

Mr. MILLER OF CALIFORNIA. No.

Are you ignoring me again, Mr. Chairman?

The CHAIRMAN. Not successfully. No.

Mr. MILLER OF CALIFORNIA. It is good to have you here. When I was a younger man, I was a builder, contractor, developer. In my 20s, I did some HUD work. I just have a strong feeling that you are doing what you can to help people gain the opportunity of homeownership. And I understand that not everybody is ready for homeownership all the time, but you try to do what you can to assist people in that direction.

And a good friend of mine, former Secretary Alfonso Jackson, whom I really respect, came to me during the first term of President Bush and he asked me to support the American Dream Down Payment Initiative. And in his argument for why HUD should get involved in this from the government, he showed me how the seller-funded downpayment assistance program was working in the private sector, and he said, we will pattern it after that, and we can get double the bang for the buck. We can not only get the benefit from the private sector dollars, but we have the government involved in a program. So I supported it and got behind it and voted for it.

The next thing I knew, within a few years, the government was trying to put the seller-funded nonprofit assistance programs out of business, which meant only HUD could do the work. And I know there was litigation over that situation.

I had asked HUD, if there is a high propensity of foreclosures in the seller-funded versus the government-funded, could you please send me the documents to demonstrate that? And nobody ever could. I am not imputing anybody in saying that, but I think a judge in a private lawsuit asked the same question of HUD, and HUD never could, either. And I mean no disrespect for HUD. But I wanted to see the data, because it didn't make sense to me why the government could do something if we used the same appraisal per forma, we used the same underwriting standards, that the private sector couldn't do. And a group of us here got together on numerous occasions and tried to introduce legislation to rectify what we thought was an injustice, to allow the private sector to continue to work in that arena yet provide good underwriting standards that

never put the HUD budget at risk through guaranteeing FHA loans.

We introduced H.R. 600, which we believed would do that as the FHA Seller-Funded Down Payment Reform Act. And we tried to make sure in drafting the bill that it was budget neutral, so that we did not put the government at risk of any loss. And it basically helps creditworthy homeowners, ready families to become homeowners.

Have you taken a position on that?

Secretary DONOVAN. I have not taken a position on that bill. I will make a couple of comments on that, Congressman.

First of all, I do believe that downpayment assistance can be an effective tool if done right. From my own experience as a local housing official, we created or preserved 17,000 units of homeownership for low- and moderate-income people. And when I left my job, we had only 5 foreclosures among those 17,000. We used downpayment assistance fairly widely, but I think one of the key things among the ways that I think that was implemented safely was that there was real equity created for those homeowners by the downpayment assistance.

Mr. MILLER OF CALIFORNIA. That is making sure the appraisal is done properly.

Secretary DONOVAN. That, but also, the downpayment effectively becomes equity for that homeowner. So it is not just that the appraisal was done correctly, but that you don't end up with effectively 100 percent or even more of the true value of the house financed.

And the second thing I would say is, I would be very happy to share the facts as we know them with you about the performance of the seller-funded downpayment assistance. From my look at it, at the time when we did the last review of the FHA Fund, despite the fact that seller-funded downpayment loans represented only 14 percent of the loans in the portfolio, they represented more than 30 percent of the losses and the foreclosures. And so, to me, that demonstrates that there is some real danger in the way that program had been implemented. And at this point, that has been by HERA as you know last summer disallowed, that we are not able to offer that. And, frankly, given the performance of those loans, I understand the reason that those practices were ended.

So I want to make clear, I think there are safe ways to provide downpayment assistance.

Mr. MILLER OF CALIFORNIA. And you said, "if they are done right." If you could please work with us on your interpretation of, "if they are done right," so we at least have a criteria we know in which to work, we would really appreciate it. And I will let you finish your comments there.

Secretary DONOVAN. Okay.

Mr. MILLER OF CALIFORNIA. And if you would have a time to have your staff read H.R. 600 to see if you think we are on the right track and if you think there are some modifications that can be made to that. Because I know there are Members on both sides of the aisle here who believe it can be a viable program if it is handled properly and under the proper underwriting criteria. But we would love to work with you on that and get your opinion as to how

you would see that program working and how we can do it for the betterment of HUD and for the people who need the assistance.

Thank you. I yield back.

The CHAIRMAN. The gentleman from California, Mr. Baca.

Mr. BACA. Thank you very much, Mr. Chairman.

Thank you very much for being here, Mr. Secretary.

It seems to me that one of the biggest problems with the Section 8 Program is the transferring of the vouchers. Because of the administrative headaches and cost of transferring a voucher from one jurisdiction to another, public housing agencies often end up limiting the transferability of the voucher, which can prevent a person and their family from pursuing opportunities elsewhere, like good-paying jobs. What are some of the possible solutions to this problem that you would advocate or like to see explored during this process? I know you mentioned, "simplified," but what is your definition of "simplified?"

Secretary DONOVAN. On this point, I think one of the positive things about the bill, I didn't mention it in my testimony, but we are supportive of it, is it gives HUD the authority to work out a vastly simplified way to make sure that what we call portability, the ability to take a voucher from one jurisdiction to another, is simplified and in fact encouraged. There is no question one of the benefits of the voucher program is the ability to take that voucher, even if it means to a different city or a different part of the country.

So I would be happy to work with you more on the specifics of how we would think about doing it. The bill would give us the ability to set rules around that. Much of this has to do with providing, getting rid of some of the barriers to doing that right now the way that the funding is provided. And there are lots of other details that make it quite complex to do it at this point. We would be happy to share more information with you.

Mr. BACA. Thank you. And we look forward to working with you to make sure we keep more people in their homes or the opportunity to stay in their home.

Another question that I have, do you think that the changes to the inspection process would do enough to relieve the landlords' reluctance to participate in the vouchers program, which is question number one? And, number two, can you think of any other incentives that would be used to increase participation and put more people in housing instead of being homeless?

Secretary DONOVAN. I think the provision you talked about and many other provisions in the bill will help to encourage landlord participation in the program. There is no question in my mind that this will go a long way to do that. I do think there are additional steps that we could take, and I look forward to working with the committee on trying to implement a number of those going forward.

Mr. BACA. We look forward to hearing about those additional steps so this way we can go forward. Until we hear from them, then it is hard to tell our constituents what those steps are and what they need to do. So I look forward to hearing that.

The third is, last year in San Bernardino County, and that is the area that I represent, in California, over 8,000 Section 8 vouchers were issued. However, it is my understanding that these vouchers

were issued to people who had been previously enrolled in the program. A new applicant may in some cases have to wait years to get relief from their local Public Housing Authority. Surely there must be something that can be done to improve the situation so they don't have to wait for long. Unfortunately, because of the tough economic times, more and more people are experiencing the harsh reality of not being able to make their rent or mortgage payment. This program as it stands now seems to be silent on that issue. What steps can be taken to improve access to people who really need that relief?

Secretary DONOVAN. I am not familiar with the specific list of folks that you are talking about who might have previously been eligible. I would love to get more information from you about that.

I do think that one of the challenges that we have seen in many parts of the country is that the current funding formula restricts the ability for many housing authorities that are strong performing housing authorities and have been effective, to use their reserves because they are already using 100 percent of the number of units that they are authorized. So, currently, we have both a cap on units as well as on budget. Massachusetts is one of those agencies, and there are others around the country as well.

We are proposing in our budget, just as the funding formula in the SEVRA bill would do, to lift the unit cap to allow more flexibility where there are adequate budget resources to be able to increase the number of people who are served. So that is one way that I think this bill could help to do that, and I would love to get more information about it.

Mr. BACA. Thank you. Because the majority of the priorities are given to those who are already receiving it versus those who need to receive assistance. So we need to have a balance between those who are on that, who want to continue to have the voucher aid, but those also who need to get voucher aid as well. So I think if we can look for a balance, we look forward to working with you.

Again, thank you very much.

The CHAIRMAN. Let me just take the last few seconds to ask the Secretary, I want to re-emphasize the point, I had not fully focused on it, but if you have a cap both on units and on reserves, to some extent the benefit an authority gets from finding cheaper rents is vitiated, because if it saves money on the rents, but uses up all its units, it doesn't get to use that. Now, in an ideal world, that wouldn't be a factor, but I don't live in one. So it does seem to me what you say, and that is very important, to make it a cap on funds, not on units, which further incentivizes people to find cheaper units and then get some benefit.

Secretary DONOVAN. It also, I would say, Mr. Chairman, incentivizes housing authorities to be more efficient. Right now any of the benefits of saved costs won't allow them to serve more people. So there aren't the incentives that there should be for cost savings in the program. And I think that, again, goes to the point of this will help to increase the efficiency and the cost-effectiveness.

The CHAIRMAN. Thank you.

The gentleman from New Jersey.

Mr. LANCE. Thank you very much, Mr. Chairman.

Good afternoon to you, Mr. Secretary. I must say Cabinet officers are looking younger and younger.

Secretary DONOVAN. You should have seen me before the first 100 days.

Mr. LANCE. First 100 days. Touche.

Regarding the billion dollars in the Affordable Housing Trust Fund, that money was originally supposed to come from profits in GSEs. You remember profits in GSEs. Since that is no longer the case, how will you be requesting the money since we can no longer rely on profits from GSEs?

Secretary DONOVAN. We are proposing a billion-dollar injection for the National Housing Trust Fund—

Mr. LANCE. Yes.

Secretary DONOVAN. —in our budget. And we are already discussing and working with the Appropriations Committee to find the necessary offset for that in the budget. So we haven't determined precisely where that would come from.

Mr. LANCE. So it is a work in progress, and you will have an answer to that by sometime in the autumn?

Secretary DONOVAN. Obviously, it would have to be resolved as part of the budget discussions leading up to the passage of the Fiscal Year 2010 budget, hopefully by the beginning of the fiscal year.

Mr. LANCE. Thank you for that answer.

On another issue, on reverse mortgages, the reverse mortgage program, as I understand it, the budget contains roughly \$800 million in credit subsidies for that. Is the change in home price assumptions the only reason the Administration feels the need to ask for credit subsidy for that program?

Secretary DONOVAN. One point for context that I would make, overall in the FHA programs, and to focus for a moment on the FHA Forward Program, the main single family program that is used in the FHA single family fund, we expect the loans originated during Fiscal Year 2010 to produce a surplus of \$1.7 billion. So overall, I want to be clear that FHA continues to make money for the taxpayer on that when you include all the programs together.

With the HECM program, the reverse mortgage program, it is the sensitivity to house prices that is driving that request. We felt that given the way that the reverse mortgage program operates, and its far more greater sensitivity to house prices, that using a relatively conservative projection over the long term of where house prices would go, that this was a reasonable estimate of what the costs would be. We further felt that given the economic climate that seniors are facing today, that it would be better to continue the program, particularly in light of the overall profitability of FHA, at the current premiums rather than raising premiums for seniors as a proposal and having a cost-neutral program for 2010.

Mr. LANCE. Thank you very much.

I yield back the balance of my time, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

The gentlewoman from New York.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

And thank you, Secretary Donovan.

Secretary DONOVAN. It is good to see you.

Ms. VELAZQUEZ. New Yorkers are very proud of your service, and we know you are going to bring strong leadership for this agency that is in such a need. I would like to ask you, last Congress the House passed a Section 8 reform bill that included significant changes to the Moving to Work Program. Although this draft that we are considering doesn't include enhancement to MTW, can you explain why a program like that will be good for PHAs and residents?

Secretary DONOVAN. Well, as I alluded to in my testimony, with the right kind of measurement and analysis that would demonstrate where the innovations are actually working in MTW, how they are working so that those could be replicated, in addition with tenant protections that would ensure families are served at an equal level and that particularly the lowest-income families continue to be served by the voucher program, I do believe that Moving to Work can be an effective tool for creating more flexibility and innovation for strong housing authorities. And so, again, I do think it can be, just as this broader bill itself, an important tool for innovation with the right kinds of safeguards.

And I would just say, Congresswoman, very much like—as you know, we had a lengthy discussion with your staff, with many advocates in New York and others about the best way for New York to implement the Moving to Work, or the HIP program as it would be known, with the changes. I believe that is the kind of model that we could think about more broadly for the country.

Ms. VELAZQUEZ. So in terms of timing, do you suggest that we delay any expansion of MTW until appropriate evaluations are conducted, or should we go ahead and authorize an expansion that includes a strong evaluation component for participating PHAs?

Secretary DONOVAN. Obviously that is, I know, a decision that Congress has been thinking about and ultimately will be part of the resolution. I do believe that there is some value in expanding the number somewhat. I don't have any exact estimate of what we would think that would be at this point. But again, that has to come with the kind of protections and the kind of evaluation that we have talked about.

Ms. VELAZQUEZ. Okay. And in terms of the appropriation for 150,000 incremental vouchers for the period of 2010 through 2014, given the economic downturn and the fact that homelessness is on the rise, is 150,000 new vouchers sufficient? I guess that you are going to say that is up to Congress to say, to decide, but let me ask you, you saw the question, could you describe how we should best allocate these incremental vouchers?

Secretary DONOVAN. So, first of all, I do believe, and the President believes very strongly, that providing funding for more vouchers is important. It is the reason we proposed an equivalent of a \$1.8 billion increase in the voucher program in our 2010 budget proposal.

I believe that—and this is really the direction that our budget went—that given the uncertainty of the formula funding over the last few years, given the way that many housing authorities have now eaten into their reserves significantly, the kind of situations that we talked about earlier in Atlantic City which are the result not of administrative issues as they are there, but of an inability

to access reserves and other problems, I believe a general expansion of the funding for existing vouchers makes the most sense, and that is the way we have proposed it in our budget; and that the kind of funding formula that is in this bill supports exactly the right kind of incentives for housing authorities to fully utilize their vouchers, and if they don't, to be able to reallocate that funding to places that will use it.

Ms. VELAZQUEZ. Thank you.

Secretary DONOVAN. Thank you.

Mr. MOORE OF KANSAS. [presiding.] Mrs. Biggert, you are recognized, please.

Mrs. BIGGERT. Thank you, Mr. Chairman.

And thank you for being here, Mr. Secretary. I have a couple of questions. I want to get through them.

And following up on the Moving to Work, I know there are housing authorities in my district that are very interested in getting into that program. I think it is a very useful program.

I also wanted to ask you about the Family Self-Sufficiency program that was put in by Congress just not too long ago. Is that going to be something that is really going to help to move people out of public housing and into finding homes on their own?

Secretary DONOVAN. From my own experience, Family Self-Sufficiency is a very important effort. And, in fact, we supported in New York a significant expansion of Family Self-Sufficiency with City dollars in addition to Federal funding. I think one of the issues there, like the MTW, is that despite the success that I saw with my own eyes, that I think anecdotally we have seen in many parts of the country, we haven't had comprehensive research about the program to show what works best and what doesn't.

So I certainly am excited about seeing Family Self-Sufficiency continue and expand, but also I think we need to do some rigorous research about it to make sure that the best models are being replicated in other places.

Mrs. BIGGERT. And do you see an expansion of the Moving to Work Program?

Secretary DONOVAN. Again, I do believe that it is warranted that there be some expansion. I can't give you an exact number. But, again, I do believe it has to be paired with the right kind of evaluation and the right kind of tenant protections.

Mrs. BIGGERT. Okay. Then this is a question that comes up, I think, every time that the Secretary of HUD is here, and that is the technology, the outdated technology to do all of these programs. Are you going to move forward; is there budget for improving the technology for information?

Secretary DONOVAN. I couldn't agree more that this is an issue. Thankfully, Congress appropriated in the 2009 budget \$4 million to do a comprehensive technology study for the Department. That is now underway. And in addition, in the 2010 budget we are proposing a—we are calling it a transformation initiative that would give us significantly increased and more flexible funding to allow us to provide greater technology and greater integration of systems for the Department. So I couldn't agree more that this is a serious issue.

Mrs. BIGGERT. Okay. Then RESPA. As the Federal Reserve is moving forward with their new disclosure rules under the Truth in Lending Act, and they won't be ready for probably another year, there was a proposal to delay RESPA so that the two bodies, you and the Fed, could work together. Do you foresee changing any parts of RESPA, or do you see that it might be—to wait and see and work together, or how is that going to resolve itself with them both working on the same thing?

Secretary DONOVAN. I would say there is no question that President Obama and I, and more broadly the Administration, are committed to really taking a hard look at our regulatory structure overall. Chairman Frank, and many others, have been engaged already in this discussion. And as part of that, Chairman Bernanke and I have already begun discussions; our staffs have started working together on ensuring that while we are strengthening our regulatory system, we are also simplifying it.

I think we could both benefit consumers, while also making a more efficient and effective market for industry at the same time on many issues, and I think this is one of them. So we are committed to that, creating a joint process, and we have begun work on that.

What I would also say, and I announced this just recently, is that I don't believe, given some of the benefits of the recent RESPA rule, that we should delay implementation of that pending those discussions. I don't think it is an either/or. And therefore, we have withdrawn one portion of the RESPA rule that has to do with something called required use, because there was some unclear language there. We are re-drafting that, and we will re-release it. But pending that, we are moving forward with the rest of the rule towards implementation, while at the same time ensuring for the long term that we harmonize our RESPA and TILA more effectively.

Mrs. BIGGERT. Thank you.

And then just one more quick question, and that is on the homeless children. That was discussed at the bill signing yesterday as part of the inclusion in one of those bills. Are you going to be working with Secretary Duncan to make sure that no child falls through the cracks with the housing, and they will get the help that they will need?

Secretary DONOVAN. Absolutely. And, in fact, we have already begun work. There was important funding in the recovery bill as well to help us better track and make sure exactly, as you say, that homeless children don't fall through the cracks. We have made a lot of progress in the last few years in this country around chronic homelessness, but we have seen an increase in family homelessness in many places. There was a billion-and-a-half dollars in the recovery bill that we are implementing that can be used in a new way in our programs to prevent homelessness rather than just fighting it once it has occurred.

And so that prevention and rapid rehousing effort is already underway. We have released a notice on it, and we are working with communities to get that funding out as quickly as possible. Obviously, helping those families stay housed will help to prevent children from becoming homeless in the first place.

Mrs. BIGGERT. Thank you. This has been a very important issue for me. So I would love to work with you, if possible.

Secretary DONOVAN. I would love to work with you. Thank you.

Mrs. BIGGERT. Thank you.

Mr. MOORE OF KANSAS. Thank you.

The Chair next recognizes Mr. Green.

Mr. GREEN. Thank you, Mr. Chairman.

Thank you again, Mr. Secretary.

Mr. Secretary, notwithstanding high unemployment, notwithstanding the high rate of foreclosures, we still have persons who can afford to make a monthly mortgage payment, but who cannot afford a downpayment. And Mr. Miller, Representative Miller on the committee, mentioned this earlier. The seller-assisted downpayment program may be something that cannot only help people, but also help the economy in this recovery that we are trying to achieve.

I was very pleased to hear you say that you have some degree of flexibility, and that you want to see real equity in the homes that are purchased with these seller-assisted downpayments. I think that is fair.

I also would like for you to know that we have looked at this and looked at risk-based pricing as a means of making sure that the premiums paid will cover the cost of the program. I think that this is a means by which we can have a program that is totally self-sufficient, that doesn't require government intervention other than to monitor the program, and will cause a good number of persons to move into homes who are now paying rent that may very well be higher than the mortgage payment that they will ultimately have after having received some assistance from the seller.

Now, the empirical evidence that I have had an opportunity to peruse seems to indicate that the difference between the downpayment being paid by the buyer versus a relative of the buyer, which is still in place, or some municipality or some agency of the government, there is a difference, but it is not so vastly different that it would merit our not taking another look at this. So I am pleased that you have indicated that you are willing to.

And what I would like to do is have an opportunity to visit with you about this at some point in the near future. I know you are really busy, but if you can make some time for us to visit, maybe we can fashion a program that will be of great benefit to the many persons who truly can afford to make these payments—I don't want to see a program where we put persons in homes who cannot afford them—when they will have the equity that you have made reference to, and also wherein we will start to impact the economy in a positive way by getting many of these homes that are going to be at some point on the market at reasonable prices. The time to start to buy is probably yesterday or today or tomorrow, but sometime right away. And many persons will be able to move into these.

So I would ask you to give a response, and then I have one other issue that I will broach.

Secretary DONOVAN. As I said, I would be happy to review the legislation and to look at it. I do have serious concerns about the evidence that I have looked at that shows that the seller-funded

downpayment loans were more than twice as likely to default as the average loans in the FHA portfolio. And I think the important difference about traditional downpayment assistance as it has been provided through the HOME program, as we provided it in my own experience, is that it didn't require repayment, that there was no premium associated with it, and therefore that it created effectively real equity for the buyer. And so that would certainly be the principle that I would bring to look at it.

Mr. GREEN. Thank you. I would gladly work with you around that principle of real equity in the home.

Now I would like to move to one additional area, and it has to do with the waiting lists that we have. In some places, they actually shut these waiting lists down. They don't continue to allow persons to become a part of a list after a while, because my assumption is that they know that they can never get to some people who are on the list. Has this been your experience?

Secretary DONOVAN. Yes, it has. And I think it is fairly traditional around the country that waiting lists are closed partly because if you have families who are on the waiting list for a significant period of time, that information about those families is often outdated or not useful and requires opening up the waiting list again or reaching back out to them. So it has been the traditional practice of housing authorities to open and close waiting lists depending upon the availability of vouchers.

Mr. GREEN. Have you used the waiting lists to ascertain the number of people who are actually waiting? Do you do that? I am not sure how that is used in terms of empirical evidence.

Secretary DONOVAN. I am not aware of any comprehensive tracking of that. Those numbers are kept individually by the more than 3,100 housing authorities around the country. I am not aware that we have those numbers, but I will certainly go back and check and see if we do and provide them to you.

Mr. GREEN. If we are not—and I am hurrying because my time is up—if we are not, would that be beneficial to have a means by which we could get that empirical evidence into your office so that you could—

Secretary DONOVAN. It is an interesting thought. Let me talk with the folks in the program about whether we have a way to do that and how useful that might be.

Mr. GREEN. Thank you very much. I look forward to visiting with you.

Mr. MOORE OF KANSAS. The gentleman's time has expired. Thank you.

Mr. Paulsen, you are up, sir.

Mr. PAULSEN. Thank you, Mr. Chairman.

Mr. Secretary, there has been a lot of reports in the media about the financial solvency or financial stability, I should say, of the FHA program. Is the FHA program in financial trouble?

Secretary DONOVAN. Generally, what I would say is that like every other loan product in this market, we have seen increases in our delinquency and our losses, and that I do have some concerns, particularly around improving FHA systems, our staffing, our resources, a range of others. And we have begun that process, thanks in large part to assistance from Congress in our recent budget.

Having said that, I would make two fundamental points. There are places where I have seen FHA referred to as the next subprime, and I think that that is, frankly, inflammatory and incorrect, because FHA has continued through this entire crisis that we have seen in the mortgage market to offer fixed-rate, 30-year financing and safe, longer-term adjustable-rate products, and have never offered the kind of subprime or exploding fees, optional ARMs, the kind of products that got us into trouble in the first place. And in fact, while our defaults and our delinquencies have increased, they remain one-third of the level in the subprime market. So it is a very different situation than we have seen in the subprime lenders.

Our loans are concentrated in areas of the country that had seen much less run-up in the market. We do not have heavy concentration in California, in Florida, and Arizona, Nevada, those parts of the market. It is much more in other parts of the country that have not seen the same kind of run-up and then declines.

And also with the recent changes to eliminate the seller-funded downpayment program, we believe that will save the FHA, that change alone, roughly \$2.5 billion in 2010. And as a result of that and the other things I have talked about, we expect the FHA—new FHA originations in the single family program to earn the taxpayer \$1.7 billion in the new loans originated in 2010.

So I think overall what that says is we should all be concerned and watching closely, particularly focused on fraud and other issues. The President signed a bill yesterday that is going to significantly increase our powers to stop fraud. But I think overall the signs are encouraging that the FHA can continue to be an active player in the market very safely.

Mr. PAULSEN. So, Mr. Secretary, and I don't know the details of the budget request, and so you are saying that the money—because, you know, Congress has been asked to come back over and over for additional bailouts in many different facets of the financial sector and service area. And so with the FHA area in particular, there is a request, right, and it is not necessarily to increase premiums to borrowers, but there is a component from the budget, but you are saying there will be a net gain for the taxpayer?

Secretary DONOVAN. That is correct. There is an \$800 million request for the reverse mortgage program for seniors, which really operates much more like an annuity than it does as a traditional mortgage product. So it is quite different. But savings to the taxpayer of \$1.7 billion for loans we expect to be originated in 2010.

Just one other note I would make. The 2010 budget really focuses on new loans that will be made in 2010. Another important measure is the actuarial review that we do of the FHA Fund every year. That will be completed over the summer, and I think that will also be an important measure of the health of the Fund. Based on our latest projections, we would expect that the Fund remains above the minimum 2 percent reserve required by Congress. But I think depending on where the housing market goes in the next few months, I do have some concern that we might drop below that. That does not mean we would need a "bailout," that just simply means we would reach a level that would heighten our concern

about the level of reserves for the FHA Fund, and that we may need to make some changes to the Fund at that point.

So I think encouraging news about the 2010 budget, but we continue to watch it closely, and we would be back to Congress with more information this summer.

Mr. PAULSEN. Okay. I have no further questions. I yield back my time.

Mr. MOORE OF KANSAS. Thank you.

Mr. Secretary, I want to—before I ask you a question, I just wanted to thank and commend Subcommittee Chairwoman Maxine Waters for her work on housing issues, and for her work specifically on the issues we are talking about today.

Mr. Secretary, thank you for your testimony this afternoon. It seems that this draft bill improving the Section 8 Voucher Program makes a lot of sense. But I want to ask you a question about HUD programs more broadly than just the bill here. Is there sufficient transparency and oversight built into HUD programs to protect against waste, fraud, and abuse, in your estimation, sir?

Secretary DONOVAN. First of all, I would echo your comments about the chairwoman and the importance of her work broadly, and particularly this bill that we are discussing today.

Mr. MOORE OF KANSAS. Thank you.

Secretary DONOVAN. I believe, and I would particularly focus on the FHA programs, that we do need to do more to strengthen our oversight of HUD's programs, and I am absolutely committed to doing that. And, in fact, one important step in that direction was taken yesterday when the President signed a bill that will allow us in FHA to take more aggressive action against fraudulent behavior, as well as to increase funding for oversight against fraud.

We have also proposed in our 2010 budget a \$37 million initiative to increase our efforts to look at mortgage fraud within our programs, and, frankly, more broadly across the market through our fair lending efforts. Those will complement with efforts of the Justice Department, the Treasury Department, the Federal Trade Commission, and a number of others who also, through the bill signed yesterday, will get increased resources and powers to go after fraud.

I think the most important element of that is that we have not previously had the authority to go after many of the non-bank institutions that were responsible for a large share of the subprime lending and the defaults. The bill signed yesterday gives us those powers. So I do think we have made an important step in our budget and in the bill signed yesterday.

Mr. MOORE OF KANSAS. As chairman of the Subcommittee on Oversight and Investigations, and as a former prosecutor myself before I came to Congress, I really appreciate what you are doing there, because I think it is very important. I think the public has just had it up to here with people who have abused some of our Federal programs. So I appreciate the strong steps that you have taken that you talked to about right here.

I yield back my time, and you are next, Ms. Jenkins.

Ms. JENKINS. Thank you, Mr. Chairman.

And thank you, Mr. Secretary, for joining us today.

As you know, manufactured housing, regulated by you, provides affordable, non-subsidized homeownership for millions of Americans and consumers, particularly lower- and moderate-income families. Back in 2000, Congress passed the Manufactured Housing Improvement Act in order to reform and modernize key aspects of the HUD regulatory program for manufactured housing, and among those reforms was a provision to require and fund a non-career appointed official to administer the program. We have been advised, though, that this position has not yet been filled. Do you intend to fill the position with a political appointee?

Secretary DONOVAN. I would say honestly, Congresswoman, that is not a decision that has been made at this point. We are still evaluating our overall funding and staffing levels. As you know, an important part of the last few months has been staffing-up, understanding the budget that we have, as well as the number of political slots versus career slots. And so I have not made a decision about that at this point. I would be happy to discuss with you further your interest in that, and will make sure when we have made that decision to let you know.

Ms. JENKINS. Okay. Any timeline?

Secretary DONOVAN. I don't have a specific timeline at this point. Given your interest, I will certainly pledge to you to get back to you quickly on it.

Ms. JENKINS. Okay. Excellent.

Could you also comment on how you view the Department's implementation of the Manufactured Housing Improvement Act? And are there any aspects of the legislation that need to be improved upon?

Secretary DONOVAN. Well, one of the early issues that I faced when I arrived as Secretary is that there were important provisions in Title II that were passed last summer that had not yet been implemented. And, in fact, there was concern within the Department that we might need an extended rulemaking process to implement those, despite the wishes of Congress to move quickly on that. We evaluated that, made the decision that we would not go through a full rulemaking process, and that we are finalizing a mortgagee letter around that that will implement those provisions. So that, I think, was the most significant concern I had heard and dealt with when I arrived as Secretary, and we are moving forward on that.

Ms. JENKINS. Okay. Thank you, Mr. Secretary.

Thank you, Mr. Chairman. I yield back the remainder of my time.

Mr. MOORE OF KANSAS. Thank you, Ms. Jenkins. Thank you very much.

Mr. Sherman, you are next, sir.

Mr. SHERMAN. Thank you.

I have asked my district staff to focus on the problems in our own area dealing with the Section 8 Program. And, Mr. Secretary, they basically say you folks are doing a good job. The concerns all tend to focus—and I have talked to people in other parts of the country as well—on favoritism and inefficiency with the local folks who are involved in the administration of Section 8. And so I hope that your people would be doing all proper controls and exercising

those controls with an eye toward making sure that these Federal dollars are spent well and without favoritism.

One particular area in the area of local control where it could clash with Federal objectives is the area of portability. Obviously we want people to live as close to their jobs as possible, especially given today's costs of transportation, the effect on the environment, etc. We want people who are struggling to get by to live close to their support systems, to their family. We want them to be able to go where the jobs are. Nothing would be worse than a labor market screaming for employees in one place, but people feel compelled to live somewhere else. So portability is an important Federal objective, yet I hear story after story of disputes, situations where the two agencies fight between themselves in just processing this transfer. And the problem might be remedied by greater enforcement by HUD. We might even want to see local housing agencies fined or penalized in some way if they cause repeated inordinate delays in the processing of transfers.

I realize you have been on the job, I think, less than 100 days, so I don't know if this has percolated up to you, but what do we do to make sure that people with Section 8 vouchers can live where they need to live?

Secretary DONOVAN. So before I answer that, Congressman, I just wanted to note—Congresswoman Jenkins just left—I have been informed by my staff that as usual they are ahead of me, and the mortgagee letter I just referenced has already been released. So I just wanted to make sure that the record reflected that. We will obviously get in touch with the Congresswoman's office directly.

On this issue of portability, it is a significant issue. I believe very strongly that one of the benefits of the voucher program is, just as you say, Congressman, to allow the freedom of choice to move to new communities, to follow jobs, or whatever other reasons there may be to move, and to ensure that access to opportunity is one of the hallmarks of the voucher program. And I believe strongly that there is a very positive provision in this bill that will allow HUD to remove a number of the current barriers to effective portability. There simply are—in terms of the way we fund and reimburse housing authorities for those, frankly, it is somewhat understandable the kind of squabbles that you talked about that we end up with between housing authorities. So the flexibility that this bill would give us to do that, I think, is very, very important, and we would implement those as quickly as possible.

Mr. SHERMAN. So if we pass the bill you want, you will solve this problem.

Secretary DONOVAN. More than that, the provisions in this bill are good provisions that would help us to solve it.

Mr. SHERMAN. I yield back.

Mr. MOORE OF KANSAS. Thank you, Mr. Sherman.

The Chair next recognizes Congressman Cleaver.

Mr. CLEAVER. Thank you, Mr. Chairman.

Secretary, thank you again for being here. My first question that really doesn't have much to do with the voucher program, tangentially, but have you decided yet whether you are going to have regional Secretaries? Secretary Cuomo had regional representatives. Have you made a decision?

Secretary DONOVAN. We will certainly have—they are currently called regional director positions. We will be hiring, and, in fact, have begun looking at candidates for those positions around the country.

I also, frankly, believe that those positions need to be higher profile and more effective in the field. One of the issues, I think, frankly, is that HUD has operated too much in silos, where we have different programs that don't effectively work together on the ground, the staff doesn't communicate as effectively as needed. And therefore, having a strong leader on the ground that really understands not just programs and process, but people and places and how to bring the programs together is very important. So I do believe those roles not only need to be filled, but to be even more important and a focus for my efforts.

Mr. CLEAVER. Connected to that is there has been a long-standing argument about whether or not the rent basis, the income-based rents should be done on a regional level because of the dramatic difference in housing across the Nation. And, I mean, there has been a long-standing argument. I was mayor during the 1990's in Kansas City, Missouri. It was an argument then. And it is brought on in part because what happens—and it is terrible, I suffered from it from having lived in public housing—when you start doing Section 8 vouchers in many of the cities, you will end up having a little enclave of Section 8 vouchers. And so the children who grow up there, they are recognized, pointed out, and in many instances discriminated against because they come from—there is one near our house. I had to stop my own children from referring to the area as the children from the valley. And it happens, you know, all over the country. And it is because, you know, there is a certain allotment for the acquisition of the property or, you know, how much we will subsidize the owner of the property who uses the property for Section 8. And it turns out that the only affordable properties are usually in minority neighborhoods, low-income neighborhoods.

So then you bring in—I am telling you stuff you already know. You did it in New York. So you understand the issue. And at some point, Mr. Secretary, we need to change. Something needs to happen. I don't know if we need to go to a greater flexibility based on regions, or whether or not we, you know, use more dollars so that we can do more what used to be called scattered-site housing, which didn't scatter very well.

But do you have any ideas on how we can stop this? The kids who grow up in those areas, I mean, the teachers in the schools, they all know them. Everybody knows them. The buses stop in those areas. And it is just really one of the most unfair things. I was a kid who grew up in the projects. You know, look at that little Cleaver boy. He came from the projects.

Secretary DONOVAN. Congressman, I appreciate your passion about this issue and the personal connection you have to it. I couldn't agree more that this is an issue. It is not just in the voucher program, but broadly across HUD's programs that we need to attack. And I think there are ways, and I would love to discuss more—whether in this bill or in other ways, there are ways that we could do that.

I do think there are two things I would mention on this. I think we have begun, particularly in the focus with HOPE VI on public housing, to focus on really undoing some of that damage in public housing, and that work has been effective. And, in fact, we have proposed in our budget an expansion and change to HOPE VI into an effort we call Choice Neighborhoods, which would be aimed not just at expanding the funding available, but also allowing not just public housing, but also assisted housing and even private housing in neighborhoods of concentrated poverty to be eligible for these comprehensive efforts.

But the other end of the spectrum, and I think you point this out as well, we have to create a broader geography of opportunity in our metropolitan areas by focusing as well on areas that currently don't have affordable housing available. This is something that I worked very hard on in New York to create through inclusionary zoning and other efforts, mixed-income housing in neighborhoods that otherwise would have been 100 percent market rate or luxury housing.

And so I think there are a range of ways that we need to approach this. And our budget also has some efforts that would support it. It is an initiative we call Sustainable Communities, which will support local efforts, whether it is through inclusionary zoning or others, to do exactly what you are talking about.

So I couldn't agree more, and I think we have to work on that in many, many different ways, not just in the voucher program.

Mr. MOORE OF KANSAS. The gentleman's time has expired.

Mr. Secretary, I do appreciate your coming here today. We all appreciate your testifying and your answering questions of the Members today.

The Chair notes that some members may have additional questions for this witness that they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to the witness and to place his responses in the record.

We do again appreciate your being here.

The hearing is adjourned.

Secretary DONOVAN. Thank you very much.

[Whereupon, at 4:10 p.m., the hearing was adjourned.]

A P P E N D I X

May 21, 2009

TESTIMONY OF SECRETARY SHAUN DONOVAN
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
BEFORE THE COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

Thank you, Chairman Frank, Ranking Member Bachus and Members of the committee for inviting me to testify on a draft of the Section Eight Voucher Reform Act (SEVRA). Between Housing Choice Voucher program (HCV) and public housing, HUD helps provide affordable housing to over 3.2 million families. This legislation would be a key step in improving that assistance.

I agree that the HCV program needs to be reformed to specifically provide an improved and predictable funding formula for the rental voucher program, reduce administrative burdens on public housing authorities (PHAs) and Section 8 landlords (landlords), and provide protections to tenants. The following are aspects of SEVRA that improve the current program, and I look forward to working with the Committee to reform the program.

Section 8 Funding Formula

First and foremost, SEVRA largely establishes a predictable, transparent voucher formula that will encourage PHAs to increase the utilization of funding. As you are well aware, beginning in 2003, Congress began to impose different renewal calculation formulas each year through the Appropriations Acts in a bid to arrest the growth in cost to renew Section 8 voucher funding. These efforts did more than just arrest growth, but contributed to a slide in funding utilization, beginning in 2004. While funding utilization has shown modest improvements in recent years, ensuring that renewal in 2010 will be sufficient to renew both new incremental vouchers and families that PHAs currently serve is a key component to not only stabilize voucher leasing and utilization rates but also continued improvement, as well. The formula contained in this draft legislation substantially achieves these objectives.

SEVRA also provides HUD with the authority to reallocate excess amounts among PHAs. This provision is long overdue. It would reward the PHAs that are high performers and will serve additional families by reallocating available budget authority to those PHAs that will put the funding to use. The formula also would allow HUD to make adjustment to the formula based on changes in voucher utilization rates and voucher costs related to natural and other major disasters. This, in turn, would give PHAs much needed flexibility to accommodate those situations where PHAs must adjust to situations out of their control.

Inspections

I also applaud the draft bill's effort to reduce many burdensome requirements on PHAs and landlords while improving access to affordable housing for tenants. For example, the bill would only require biennial, instead of annual, inspections. This would allow PHAs to concentrate their inspection resources on the more marginal and higher-risk units, but does not prevent them to perform annual inspections should they choose. The bill would also permit PHAs to make assistance payments to landlords while the owner makes minor repairs in cases where the rental home failed the initial inspection for only non life-threatening conditions. This change would expand potential housing opportunities for families and would be particularly helpful to families in low-vacancy markets.

Rent and Income Changes

The draft legislation also proposes to reform the current income and rent calculation system. This is a good thing because these systems are overly complex and administratively burdensome. SEVRA would represent an improvement over the current system. The draft bill would allow PHAs to defer the income re-examination for families with fixed incomes for up to 3 years, while imposing a simple asset cap for eligibility in lieu of the current complicated and burdensome computation of returns on assets from income. Additionally, the earned income disregard provision will provide a positive incentive to reward working families and encourage self-sufficiency efforts on behalf of families. We look forward to working with the Committee to further streamline rent structures.

Administrative Fees

Another item of interest is the administrative fee provisions. Administrative fees are a vital component of the HCV program. These funds provide PHAs with the resources necessary to administer the program. Approving units, evaluating tenant eligibility and reviewing applications are personnel intensive processes for PHAs. These fees are necessary to maintain an effective level of service delivery and ensure the right benefits go to the right people.

The draft provisions would provide HUD the flexibility to utilize either a per unit fee structure of the 2003 rates inflated annually or a HUD regulation that accounts for the costs of administering the HCV program and could include performance incentives. In fact, we have initiated a research study on administrative fees related to the HCV program. Eventually, this study will help determine the distribution of administrative fees based on the number of families assisted by a PHA. The provisions in this draft bill will not only fully fund administration of HCV program in the near term, but allow us to develop a more accurate distribution formula in the future.

Moving-to-Work

I'd like to take a moment to discuss the Moving-to-Work program (MTW). I understand that the committee's approach to MTW is still under discussion and, thus, this draft does not yet include provisions for the program. I believe that all the other provisions of this draft, however, are testament to the need for the flexibility and innovation that MTW has thus far provided us. That innovation, however, needs rigorous research and study, such as we propose as part of the HUD Transformation Initiative that is found in our FY 2010 budget proposal and, of course, tenant protections that ensure that families are benefitted, and not undermined, by innovation.

Conclusion

I am optimistic about the efforts to reform the Housing Choice Voucher program. I have long worked for passage of many of the provisions contained in the draft bill. I am grateful to you for this opportunity to continue that work and look forward to taking advantage of your leadership in this regard.